



BT Group plc
Annual Report 2022

We connect for good



BT Group is one of the world's leading connectivity services providers. We manage some of the UK's best-known brands too. As the oldest telecommunications company in the world, we've been at the forefront of technology innovation and progress for 176 years.

We've seen a lot of change over that time, and today the solutions we offer have never been more important to our customers. The connectivity-based solutions we sell are integral to modern lives, businesses and communities in the UK and across the world. We support millions of customers across c. 180 countries and employ around 100,000 brilliant colleagues.

+2.3

New all-time NPS high for BT Group including best ever results in Consumer, BT SME and Global



50%

5G now covers over half of the UK population and 7.2m 5G ready customers



7m+

over 7m homes and businesses passed with full fibre, with speeds of up to 900Mbps



2031

Achieve net zero carbon emissions by the end of March 2031

Financial highlights

Revenue

£20.9bn (2)%

(FY21: £21.3bn)

Profit before tax

£2.0bn 9%

(FY21: £1.8bn)

Adjusted^a EBITDA

£7.6bn 2%

(FY21: £7.4bn)

Cash flow from
operating activities

£5.9bn (1)%

(FY21: £6.0bn)

Normalised free
cash flow^b

£1.4bn (5)%

(FY21: £1.5bn)

Basic earnings per share

12.9p (13)%

(FY21: 14.8p)

Capital expenditure

£5.3bn 25%

(FY21: £4.2bn)

Look out for these throughout
the report

+ Reference to another
page in the report

↘ Reference to further
reading online

^a Adjusted (being before specific items, share of post tax profits/losses of associates and joint ventures and net non-interest related finance expense), as explained on page 210.

^b Normalised free cash flow as defined on page 211.

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Corporate governance report

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Additional information

This **Strategic report** was approved
by the Board on 11 May 2022.
By order of the Board.

Adam Crozier
Chairman
11 May 2022

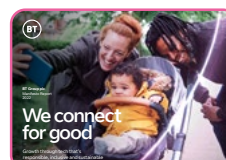
+ Please see the **cautionary statement regarding forward-looking statements** on page 212.

+ **Pages 1 to 70** form the **Strategic report**. It includes our business model, progress against our strategic framework, our key performance indicators, group performance and our principal risks and uncertainties.

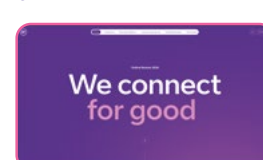
+ The **Corporate governance report** on pages 71 to 120 forms the **Report of the Directors** and includes the **Report on directors' remuneration**.

In this document, references to 'BT Group' and 'the group' are to BT Group plc comprising its subsidiaries, customer-facing units and internal corporate units. A reference to a year expressed as FY22 is to the financial year ended 31 March 2022; FY23 is to the financial year ended 31 March 2023 and so on.

↘ Read more about the
BT Group Manifesto
bt.com/manifestoreport



↘ Visit our online annual review and
see how we're connecting for
good bt.com/annualreview



A message from our Chairman

Building trust and value **across** **our business.**

The strategic and operational progress BT Group has made in FY22 would be more than satisfactory in any year but in the context of the current extraordinary economic backdrop, it is particularly impressive. When I joined BT Group at the end of 2021, I was often asked why I'd chosen to lead a company that, for all its impressive strengths, can feel like a procession of challenges.

My answer was that getting it right here matters. BT Group is central to the UK's economy, public services and security. And it's at the heart of family and professional life for millions of people.



That role is not a given right. As Philip describes in this report, we are now sharply focused on network investment and ever-better customer service. We're modernising both what we do and how we do it, aligned to the UK Government and Ofcom agenda of transforming the UK's digital infrastructure.

This is a uniquely complex task – which is my other reason for joining the group. It will take a number of years and resolute focus.

Building for the long term

Much of business, politics and media tend to run on shorter loops than jobs like this. But the truth is we are in the early stages of a mammoth and long-term transformation programme. Our task is not only to make sure BT Group evolves as a truly world class telecoms leader, but that it develops its role within the ever-shifting technology landscape.

We are up to speed – rolling out fibre faster and cheaper than ever and already reaching more than half the population with 5G. My focus is making sure we keep this momentum and stay the course. Better to do the job properly than pretend it's a quick win.

The past couple of years have seen the group prove its mettle, rising to the role of critical national telecommunications provider, keeping people working and families connected, and underpinning vital public services.

£229bn

the new networks we and others are building will yield a national productivity gain of around £229bn^a



Our task is not only to make sure BT Group evolves as a truly world class telecoms leader, but that it develops its role within the ever-shifting technology landscape.”

As we build back from the economic damage of the pandemic and cope with inflation, supply chain constraints and shifting geopolitics, our role is vital for the country's future. BT Group is already responsible for generating £1 in every £75 produced in the UK economy^a. The new networks we and others are building will yield a national productivity gain of around £229bn^b.

It is those fibre and 5G networks that, rightly, take the headlines. But the challenges we face are much wider. Connecting places is a yardstick but it is connecting people that will yield a return on our once-in-a-generation investment. And while doing that we must strive for ever-better customer service, building trust and confidence in everything we do.

Building a modern BT Group

Our digitisation agenda runs through the group. New platforms and services – for businesses as well as individuals – must be matched by a concerted drive for backroom efficiency. I have been highly impressed by our colleagues' expertise and dedication to this transition. It is of course a human as well as technical process. We will continue to develop our skills base, recruiting and training the brightest, whilst reskilling our colleagues to stay competitive.

We are digitising both BT Group and the services we offer, but we must leave no one behind. It's why our full fibre build of 25m homes will include access for

a guaranteed 6.2m rural homes. It's why we make sure connectivity is financially accessible to all through our social tariffs, and why we're supporting vulnerable customers by freezing those tariff prices in 2022.

For all our best efforts and intentions, we won't always get it right. We saw that this year with the move to digital voice services – where not enough caution on our part caused real anxiety to some of our most vulnerable customers.

Pausing that programme was the right thing to do to learn lessons and improve the experience for customers. But at the same time, we must keep leading the UK's digital transition, explaining both practical necessities and advantages to customers – like the value of digital telephony in tackling scam calls.

This year we published BT Group's Manifesto to capture how we'll grow our business in a responsible, inclusive and sustainable way, meeting our purpose to connect for good.

It sets bold goals for the social and environmental impact of our work (see [page 32](#)). As chairman, I am determined to make sure we use it not as an exercise in saying the right things but as a basis for action.

Governance

The first job for any incoming chairman is to judge whether the right strategy and management are in place. I am certain that Philip and his executive team have the vision and experience for the task.

As we look ahead to FY23 and beyond, my priority for the Board will be to bolster its skills, diversity and experience – taking into account group strategy, the

opportunities and challenges facing us and succession (given the tenure of longer serving directors). The Nominations Committee is focused on finding non-executive directors with skills to boost the Board's technology and digital capabilities and transformation expertise.

At this year's AGM, we'll bid a fond and grateful farewell to Leena Nair. Leena has chaired our *Digital Impact & Sustainability Committee* with great impact and we will miss her. But we recognise that her new role as Global CEO of Chanel is highly demanding. Sara Weller will succeed her as chair of the *Digital Impact & Sustainability Committee*.

In November Sir Jan du Plessis stepped down as chairman. I want to say a big personal thank you to Jan for his dedication to BT Group and for the support he gave me when handing over the role. It is thanks in no small part to his stewardship that I inherited the job of chairman of a business with such clear strategic direction.

In recent years BT Group's share price performance has demanded considerable patience from our investors. In the last 12 months it has performed much better. I'm confident that our *Executive Committee* now has the investment and transformation plans in place to deliver for shareholders, customers and other stakeholders.

We are well on our way but this is no quick task. It needs our investors' faith. We will repay that literally through reinstating the full year dividend at 7.7 pence per share, but also through open and consistent dialogue about our progress.

I want to close by thanking the many colleagues who have given me such a warm welcome. This company has an immense task ahead of it. But it is built on a brilliant team – one I'm really pleased to be part of.

Adam Crozier
Chairman
11 May 2022

^a Regeneris for BT, 2021.

^b FTTP £59bn productivity gains to the UK if delivered by 2025 (Source: Centre for Economics and Business Research) – 5G a further £170bn benefit. (Source: FCCG report for DCMS).

A message from our Chief Executive

A clear strategy accelerating delivery.

We're on a purposeful, fast-paced journey. Bringing our unique assets together and delivering significant and sustainable long-term growth.

 To read more about our strategic progress go to **page 20**

We connect
for good

 bt.com/annualreview



£15bn

investment in our full fibre network



£

£604m

R&D expenditure in FY22



This year BT Group again proved its resilience and ability to get on and deliver. Our operational performance was strong – and doubly impressive in the context of global economic challenges. Two factors underpin this.

First, and above all: the continued dedication and hard work of around 100,000 colleagues across the company and around the world. On behalf of the Board and my executive team, I want to thank each and every one of them for their efforts during the year and unwavering support for our customers. Recognising that our people face an extraordinary inflationary environment, we have been determined to offer the best pay rises we can afford, awarding colleagues increases ranging from 2% to 8%, and with a particular focus on those on lower salaries.

Second, clarity and alignment across the entire organisation on our purpose – we connect for good – and delivery on our strategic framework: building the strongest foundations, creating standout customer experiences and leading the way to a bright, sustainable future. (See [page 18](#)) These are now evident in all activity across the business and we see this in our ever-improving customer satisfaction results.

Despite the economic uncertainty, BT Group shares performed well; over the 12 months to 31 March 2022, and including the reinstated full year dividend of 7.7 pence per share, we will have achieved a total shareholder return of 22.7% compared to 16.1% for the FTSE 100.

Of course, the turbulent global economy has made its presence felt in all walks of life. BT Group was not immune – as seen in our FY22 financial performance – but despite an overall decline in revenue, savings from our transformation programmes and tight cost management delivered EBITDA growth of 2%.

c. 1.8m
customers already connected
to full fibre

BT Group is delivering

We're sticking to our plan: we have stepped up our modernisation agenda as we strengthen, simplify and sharpen the group's focus; we are achieving record customer satisfaction scores across all our brands; and we continue to accelerate our next generation network build programmes.

Openreach is now almost 30% of the way through our full fibre broadband build, having passed 7.2m premises and building faster and cheaper than any other operator. On 31 March, we had almost 1.8m FTTP^a end user connections from 42 different communications providers.

From a standing start three years ago, EE's 5G network now covers more than 50% of the UK population, 12 months ahead of target. Building next generation networks is one thing but connecting customers to them is what counts. On that measure we are also performing really well: our 5G-ready^b customer base now stands at 7.2m.

Our next generation networks will underpin all future BT Group products and propositions. Our FTTP customer base in Consumer has grown to its largest ever level at 1.1m; Enterprise signed a deal with BAI Communications to deliver connectivity solutions for the London Underground; and in Global we are continuing to grow next generation services, including Eagle-i which predicts and prevents cyber attacks for corporate and public sector customers.

Building a bright sustainable future for BT Group revolves around enabling our long-term growth and prosperity. Our Digital unit will be at the centre of this, with a dual-track role to cut back our reliance on complex, costly legacy systems and create new growth opportunities. Little over a year since its creation, the Digital team is radically simplifying our internal systems and processes, supported in part by AWS, and working with Google Cloud to accelerate our progress to becoming AI-led. A significant new agreement with Microsoft is helping us move in the direction of a platform business, and we have signed another deal with Distributed to enhance our access to the talent we need to deliver on our ambition.

The highly regulated nature of our business and the importance of connectivity and the other services we provide means we'll always be front of mind for a broad range of stakeholders. Delivering our plan is helping us continue to strengthen our relationships with key groups, including the UK Government and our regulator, Ofcom.

“We have stepped up our modernisation agenda as we strengthen, simplify and sharpen the group's focus; We are achieving record customer satisfaction scores across all our brands; and we continue to accelerate our next generation network build programmes.”

^a Fibre-to-the-premises (also known as full fibre).

^b EE consumer customers receiving or capable of receiving 5G network connection using one or both of a 5G-enabled handset and a 5G-enabled SIM.

A message from our Chief Executive continued

Five clear priorities to drive sustainable growth.

- | | | |
|----------|---|---|
| 1 | Drive Consumer growth through converged solutions | Consumer will lead in full fibre, 5G and convergence to win in households across the UK and build deeper customer relationships by giving them exceptional customer experiences. |
| 2 | Capitalise on Enterprise and Global's unrivalled assets to restore growth | Enterprise and Global will help business customers to grow through next generation connectivity solutions. Alongside leading capability and expertise in managed services and security, and superior customer experiences, these solutions will support our business customers on their digital journeys. |
| 3 | Deliver Openreach growth and strong returns on FTTP | Openreach will build the UK's largest full fibre network, get cost advantages from this scale and switch customers to the new platform as fast as possible. Openreach will also keep providing industry leading service and strengthen its relationship with all communications providers (CPs). |
| 4 | Digitise, automate and reskill to transform our cost base and improve productivity | Across BT Group we'll fundamentally change what we do and how we work. We'll simplify our product portfolio, automate and digitise our operations and shut down legacy systems, processes and networks. This will cut costs, boost execution speed and ensure we can deliver better experiences for customers and colleagues. |
| 5 | Optimise our business portfolio and capital allocation | We'll keep reviewing how we can strengthen our business portfolio through opportunities to own, sell or partner. We'll continue to optimise the way we allocate the cash flow generated from our operations, balancing the need to reinvest capital in the business, especially in next generation networks and solutions, with meeting our obligations to service our debt and pension fund while allowing us to pay a progressive dividend. |

Strategic priorities

Outstanding connectivity remains our beating heart. Building next generation networks will not just lay the foundations for the future economic prosperity of our customers and the whole of the UK. It will also be the bedrock for BT Group's future success, but this is only the start. As we grow the group into a digital platform-led business to ensure our lasting competitiveness, we'll deliver on five key priorities.

1. EE will become our flagship brand for consumers, leading our approach to future innovation, convergence and services beyond connectivity. Eventually, this will help us win in households across the UK and build deeper customer relationships by giving them exceptional experiences.
2. BT will be our flagship brand for Enterprise and Global under the new heading, BT Means Business. Enterprise and Global have a strong portfolio of next generation services and we will capitalise on these to drive market share in fast-growing areas where we're under-indexed.
3. Openreach has a strong and growing early customer connection rate of 25% to the new FTTP network. At such an early stage in this asset's life, it's an encouraging indicator of the long-term economic return we'll generate on this once-in-a-generation investment.
4. Half-way through FY22 we achieved our £1bn gross annualised cost savings target – 18 months ahead of schedule. This let us bring forward our £2bn savings target by a year to FY24 and target further savings totalling £2.5bn by end FY25.
5. We're sharpening our focus to make sure we are adapting to the changing markets we operate in and funding the right assets and initiatives for growth. To that end, we have finalised the sports joint venture with Warner Bros. Discovery to improve our content offering to customers, aligning our business with a new global content powerhouse. Separately, we have now extended our reciprocal channel supply deal with Sky into the next decade and, following successful trials, Openreach and Sky have signed an MOU allowing Sky engineers to complete home installations of full-fibre for their customers. These deals strengthen our strategic relationship with a key partner, mutually benefiting all of our customers.

“

We launched the BT Group Manifesto in December, setting out how we'll accelerate responsible, inclusive and sustainable growth over the next decade.”

25m

our target is to help 25m people improve their digital skills by the end of March 2026, and we're already half-way to achieving that goal

60m

we will help customers avoid 60m tonnes of carbon emissions by 2030

£7.9bn

in FY23 we expect to deliver EBITDA of at least £7.9bn

BT Group Manifesto

As the world of technology evolves, the weight of societal responsibility on companies like ours becomes ever greater and more complex. We will only succeed if we help solve some of the problems faced by the customers and societies we serve. To that end, we launched the BT Group Manifesto in December, setting out how we'll accelerate responsible, inclusive and sustainable growth over the next decade.

Central to this is making sure customers have the necessary skills for their own digital futures – whether that's helping parents help their children get online or ready themselves for a career in coding after school or university. Our target is to help 25m people improve their digital skills by the end of March 2026. We're already over half-way to achieving that goal.

We have also set out clear workforce diversity and inclusion targets which are stretching but we're determined to pursue them and champion an inclusive culture that celebrates our differences. In addition, we have brought forward our net zero target by 15 years – to 31 March 2031 for our own emissions and 31 March 2041 for supply chain and customer emissions. By embracing new technologies such as full fibre, 5G, cloud computing and IoT, we will help customers avoid 60m tonnes of carbon emissions by 2030.

Looking ahead

BT Group has emerged from the global pandemic a stronger organisation with a clear path to future success. Despite lower revenue in FY22, we've grown EBITDA, we are well on track to modernise and improve every aspect of our operations and our mid- to longer-term financial outlook is improving.

The majority of our revenue base is now inflation-linked and customers are on clear, predictable and transparent pricing plans. Annual data consumption has more than doubled in the last five years and with the once-in-a-generation network upgrades needed to support this, it's critical that our pricing structures are fit for purpose and can fund these investments. That said, in the current inflationary environment we know every penny counts for our customers – which is why we won't increase social tariff prices in 2022.

In FY23 we expect to deliver revenue growth and EBITDA of at least £7.9bn. Looking further out, we have expanded our gross annualised cost savings target to £2.5bn by FY25.

As we pass the peak of our fibre build and move towards an all-fibre, all-IP network, we expect an annual capex reduction of at least £1bn and lower operating costs of £500m. From these two things alone, by the end of the decade we expect at least £1.5bn higher normalised free cash flow compared to FY22. Our progressive dividend policy will be underpinned by these increased cash flows as we move to sustainable growth going forward.

It is thanks to shareholders' support that we are making big investments in the long-term future and prosperity of BT Group – on their behalf, and on behalf of customers and the whole of the UK.

The true strength of our business lies in our unwavering commitment to putting customers first. Building and maintaining their trust in us is the single most important thing we do; we will never take it for granted and we will always strive for better.

Philip Jansen
Chief Executive
11 May 2022



To see Philip in conversation, visit our online annual review bt.com/annualreview

Executive Committee

The *Executive Committee* provides input and recommendations to assist the chief executive with strategy development and operational management. It is chaired by the chief executive.

Executive Committee changes

The following changes to the *Executive Committee* took place during the year:

- Alison Wilcox ceased as HR director on leaving BT
- Debbie White joined BT Group as interim HR director.



Philip Jansen
Chief executive

Appointed as chief executive in February 2019 and to the Board in January 2019.

Philip joined BT Group from Worldpay where he had been CEO since April 2013. Before that he was CEO and then chairman at Brakes Group between 2010 and 2015. Philip spent the previous six years at Sodexo where he was group chief operating officer and chief executive, Europe, South Africa and India. Prior to that he was chief operating officer at MyTravel Group from 2002 to 2004 and managing director of Telewest Communications (now Virgin Media O2) from 2000 to 2002, after starting his career at Procter & Gamble.



Simon Lowth
Chief financial officer

Appointed July 2016.

Simon was CFO of BG Group before the takeover by Royal Dutch Shell in February 2016. Prior to that he was CFO of AstraZeneca, and finance director and executive director of ScottishPower. Simon was also previously a director of McKinsey & Company.



Harmeen Mehta
Chief digital and innovation officer

Appointed March 2021.

Before joining BT Group, Harmeen was group CIO and head of cloud & security business at Bharti Airtel. Harmeen has experience of incubating new businesses and creating new revenue streams, and over 25 years' experience leading digital, and technology transformation and running technology-led businesses. Harmeen has previously been CIO at Bank of America Merrill Lynch, BBVA and HSBC.



Ed Petter
Corporate affairs director

Appointed November 2016.

Ed was formerly deputy director of corporate affairs at Lloyds Banking Group. Prior to that he held corporate affairs roles at McDonald's Europe, McKinsey & Company and the Blue Rubicon communications consultancy, having previously worked as a news producer and editor at the BBC.



Rob Shuter
CEO, Enterprise

Appointed February 2021.

Before joining BT Group, Rob was group president and CEO of MTN Group. Prior to joining MTN, Rob was CEO of the Europe cluster of Vodafone Group, having worked there from 2009 to 2016. Earlier in his career, Rob held various roles in the financial sector in South Africa including managing director of retail banking at Nedbank and head of investment banking at Standard Bank.

The Executive Committee assists the chief executive to:

- develop group strategy and budget for approval by the Board
- execute the strategy once the Board approves it
- give assurance to the Board on overall performance and how we're managing risks.

The chief executive, or his delegate, take all decisions. This is so there is a single point of accountability.



Marc Allera
CEO, Consumer

Appointed September 2017.

Marc was previously CEO, EE and prior to that chief commercial officer for EE from 2011 to 2015. He spent ten years at Three UK as sales and marketing director and chief commercial officer. Prior to that, Marc was general manager of Sega UK and Europe.



Bas Burger
CEO, Global

Appointed June 2017.

Bas was formerly president, BT in the Americas, Global Services. Bas joined BT Group in 2008 as CEO Benelux. Before joining BT Group, Bas was executive president and a member of the management committee of Getronics NV, where he ran global sales, channels and partnerships, developing the company's international business. He was also CEO and managing director of KPN Entercom Solutions.



Sabine Chalmers
General counsel, company secretary & director regulatory affairs

Appointed April 2018 as general counsel and became director regulatory affairs and company secretary in May and September 2021 respectively.

Before joining BT Group, Sabine was chief legal and corporate affairs officer and company secretary of Anheuser-BuschInBev for 12 years. She also held various legal leadership roles at Diageo. Sabine is qualified to practise law in England and Wales and New York State.



Howard Watson
Chief technology officer

Appointed February 2016 as chief technology and information officer and became chief technology officer in March 2021.

Howard was formerly chief architect and managing director, global IT systems and led the technical teams behind the launch of BT Sport in 2013. Howard joined BT Group in 2011 and has 35 years of telecoms experience, having spent time at Telewest Communications (now Virgin Media O2) and Cartesian, a telecommunications consultancy and software company.



Debbie White
HR director (interim)

Appointed October 2021.

Before joining BT Group, Debbie was CEO of Interserve Group and prior to this held various senior positions within Sodexo including CEO of Sodexo Healthcare and Sodexo Government, CFO in the UK and Ireland and later CEO for Sodexo UK and Ireland. Debbie started her career with Arthur Andersen in the UK, before joining AstraZeneca where she held a range of financial roles.



Clive Selley *Invitee*
CEO, Openreach

Appointed February 2016.

Clive was formerly CEO, Technology, Service & Operations, CEO innovate & design and before that president, Global Services portfolio & service design.

The CEO, Openreach cannot be a member of the *Executive Committee* under the provisions of the Commitments (see [page 41](#)). Clive attends *Executive Committee* meetings as appropriate.

Our business model

What we do

We own, build and operate the UK's biggest and best fixed and mobile networks. We use them to give UK customers innovative digital connectivity solutions. Beyond the UK we provide global businesses with networking, security and connectivity solutions too. To meet our customers' needs – from individuals and families to the public sector and global multinationals – we design, build, market, sell and support differentiated solutions that deliver smarter outcomes for them.

Our customers span a wide range of customer segments. We earn revenue by selling them different types of connectivity solutions – often in collaboration with partners.

We invest what we earn in outstanding customer service, building and maintaining our leading mobile and fixed networks, and developing the next generation of connectivity solutions.

We also use the money we earn to pay for obligations like tax, interest and pension fund contributions as well as returning a portion of it to our shareholders in return for the capital they have invested in the business.



Consumer customers

For consumers we offer a range of broadband, mobile, landline and converged solutions, as well as entertainment including sport, TV and gaming. Typically, we deliver services to households through 12 to 24 month contracts or subscriptions.



Business customers

For businesses we offer, manage and support differentiated, innovative and compelling connectivity solutions to enable businesses to digitally transform and grow. We sell them a wide range of digital capabilities like networking, cyber security, cloud and collaboration tools and solutions. We support businesses large and small as well as the public sector and governments around the world. Typically, we provide small and medium businesses solutions on 12 to 24 month contracts. Larger business and public sector customers often buy multi-year managed solution contracts but they can also buy one-off services related to specific technologies or outcomes. These contracts give us ongoing revenue and help us become trusted partners to our customers through developing long-standing relationships.

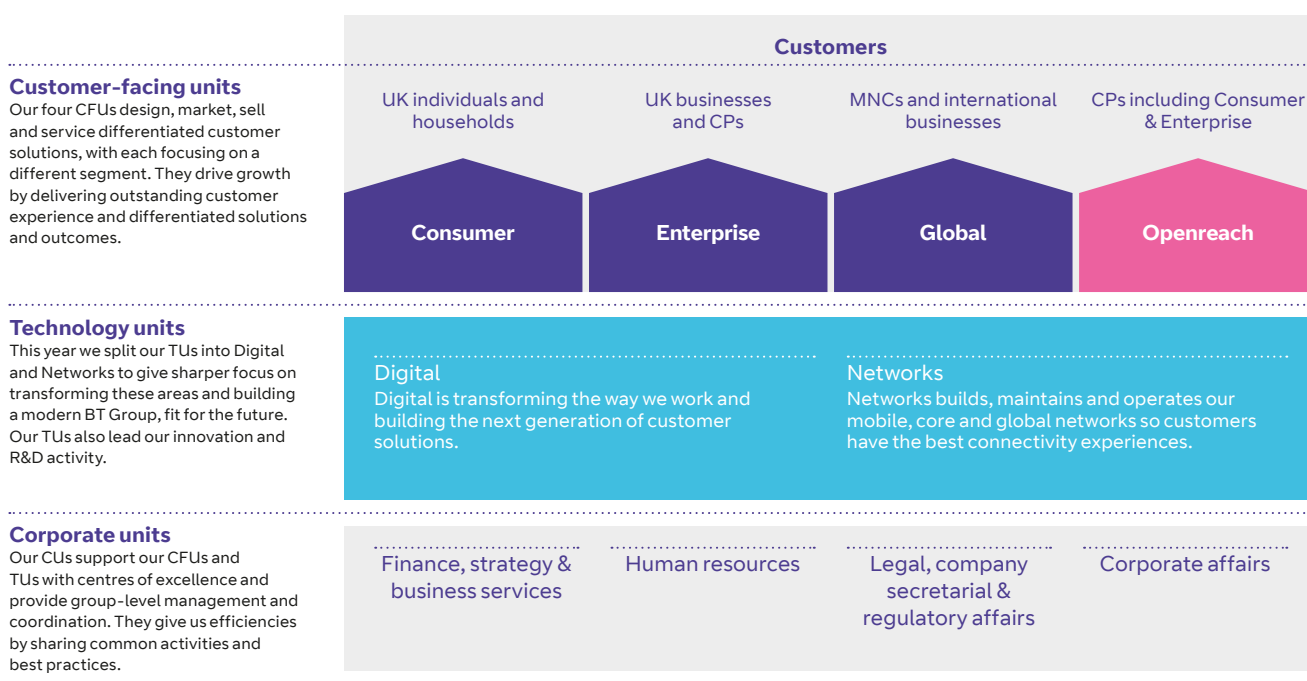


Communications providers (CPs)

We serve CPs in two ways. Through Enterprise, we wholesale our mobile network capabilities, voice services, broadband, Ethernet and other connectivity solutions. Typically, these wholesale contracts range from a month to five years or more. And through Openreach we sell wholesale access to our fixed network infrastructure to 690 CPs. A large portion of Openreach's portfolio is regulated and we typically strike long-term contracts of up to 10 years with CPs, including our Consumer and Enterprise units.

How we're organised

BT Group comprises customer-facing units (CFUs), technology units (TUs) and corporate units (CUs). Openreach is a CFU but manages much of its business separately to meet regulatory requirements. In the rest of the group, we have an integrated operating model that shares common assets like our mobile network, technology, colleagues and brands – helping us efficiently deliver the best outcomes for our customers.



The role of our CFUs

Consumer

Serves individuals and households through three brands – EE, BT and Plusnet. Together they mean that BT Group is the UK's largest consumer mobile, fixed and converged communication provider. We have a relationship with over 45% of UK households, helping them communicate, study, work, learn, play, and be entertained.

Enterprise

Helps businesses of all sizes across the UK and Republic of Ireland reach their digital goals. Our 1.2m customers range from big household names, Government departments and public sector, to small businesses and start-ups. This year Enterprise was reorganised to focus more sharply on small office and home office (SoHo), small and medium enterprises (SMEs), large corporates and public sector, and wholesale customers. And we launched our Division X unit to develop innovative solutions for our business customers.

Global

Serves multinational companies (MNCs) and governments. We have the ability to serve customers in c. 180 countries. We integrate, secure, and manage network and cloud infrastructure, and offer security, collaboration and contact centre solutions to help our customers thrive in an increasingly digital business environment.

Openreach

In line with our regulatory Commitments, Openreach is a CFU but has greater strategic and operational independence. Openreach operates our fixed access network and is building the next generation of full fibre infrastructure. It manages the fixed network connecting homes, mobile masts, schools, shops, banks, hospitals, libraries, governments and businesses to the world. Openreach serves 690 CPs within the UK who then sell fixed access services to end customers.

Our business model continued

Our unique assets

We're well positioned in our markets through a unique set of assets that help us deliver for customers. This sets us apart from the competition and creates value for our stakeholders.



Leading networks

We build, own, and operate the UK's biggest and best fixed and mobile networks. They allow us to provide widespread coverage and superior connectivity experiences for our retail and wholesale customers.

Our fixed access network has unparalleled reach with connections available to more than 31m premises. We are building the largest full fibre network faster than all other major players combined and have already passed over 7m premises with a more reliable network with speeds of up to 900Mbps.

For eight years Rootmetrics has rated our mobile network #1. We have a big stake in mobile spectrum and we continue to extend our network coverage. Our 4G network already reaches 99% of the UK population and we now have over 50% population coverage with our new 5G network. We're also investing in advanced network capabilities and developing new use cases for our customers.



Large customer base

Our large and diverse customer base and trusted relationships with them gives us insight and understanding into their current and future needs. This in turn helps us sell them more connectivity and related solutions.

Openreach is the largest fixed access wholesale network in the UK and serves 690 CPs. 42 of them are signed up to our latest Equinox deal on our full fibre platform. Through these CPs Openreach serves over 24m physical lines with nearly 80% share of the fixed access market.

The collective scale of our EE, BT and Plusnet brands means that we serve over 45% of UK households^a. Our Global and Enterprise units work with over 1.2m customers including global and multinational businesses, 76 of FTSE 100 companies, and over 11,300 large businesses and public sector organisations in the UK as well as our SME and SoHo customer bases.



Our colleagues and local presence

Our group is made up of around 100,000 colleagues. Their technical and commercial knowledge, skills, expertise and attitude are vital to our purpose and ambition. They build and maintain our networks, create and service our solutions and make sure we meet and exceed our customers' expectations. And they do all this while we're fundamentally transforming the organisation.

Our widespread local presence gives us assets and colleagues on the ground to deliver for customers. These local assets mean we can give customers service and support – and respond swiftly to their needs.

Openreach's c.30,000 engineers play a critical role in keeping the UK connected by building and maintaining our fixed network out in the field. Their dedication and skill enable us to roll out our new full fibre network at pace and scale.

In the UK we have the biggest retail footprint of any connectivity provider. We have over 15,000 customer support colleagues. And our Home Tech experts help individuals and families get the most out of our solutions in their homes.

For our business customers we're truly a global organisation – able to serve customers in c. 180 countries. We're physically present all over the world. That includes 13 accredited global security operations centres and 7 innovation and customer experience centres including in London, Paris, Amsterdam and New York. Our Enterprise and Global sales teams engage with customers on the ground to understand their needs and make sure we're delivering on them.

^a Source: Flows, Q3 FY21/22, BTG Household Penetration UK.



Well established and trusted brands

We serve millions of customers through four established brands. This lets us meet the connectivity needs of different audiences and market segments.



openreach



Strong partner and supplier relationships

We understand the value of working with others. In every area of our business, we work with a valuable ecosystem of partners and suppliers – helping us efficiently provide the best solutions for customers. We work with lots of the world's leading technology companies (like Microsoft) on shared solutions that combine the best of both parties for our customers.

Openreach has strong relationships with third-party contractors and suppliers. These enable us to build our full fibre network at scale, at pace and at the right cost. On top of that, deep partnerships with CPs mean we can give the best experience to end customers. For example, Sky can use their own engineers to connect their customers to our full fibre network.



Research and development (R&D) and innovation capabilities

Innovation has always been at the heart of the BT Group's business and continues to be vital today. We find new, exciting ways to use technology to improve solutions, processes and networks and better serve our customers.

Openreach innovation helps manage cost and continually improve network quality. R&D investment has revolutionised the technologies, tools and techniques that underpin our multi-billion pound full fibre build. For example, our Cleanfast machine, Marais Trencher and Ground Penetrating Radar enable faster, safer and cheaper civil works which cause less disruption to local residents.

Employing over 10,000 colleagues in our technology units, we spent £604m on R&D this year. Adastral Park is our global R&D centre and has played a pivotal role pushing the boundaries of telecommunications research. We have leading specialist facilities and labs exploring the value of emerging technologies including 5G, IoT and cyber security.

We hold over 5,200 patents and patent applications and have achieved world firsts in areas like quantum-secure communications. We run an extensive, long-standing, joint-research programme and currently work with more than 60 universities. Together we pioneer the future of connectivity and connectivity-related services for our customers.



Rich data assets

Our large, rich data sets help us to deliver better service to our customers and to create outstanding solutions. Our customer, product, networks and operational data give us insights into what is important and where we can improve.

As we apply more artificial intelligence (AI) and machine learning we're creating more personalised and meaningful experiences for our customers, and working smarter, faster and more efficiently.

Key trends influencing us

We operate in a rapidly changing environment. By understanding key trends, we can take advantage of opportunities as they arise and act quickly to reduce risks to our business where necessary.

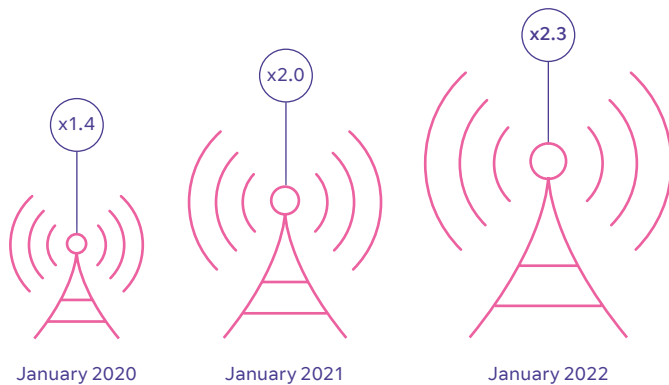
Growing demand for connectivity services

Our customers' demand for connectivity continues to grow and connected services are supporting more aspects of their personal and work lives. Even as the world's Covid-19 restrictions unlock, some behaviour changes are here to stay.

Digital workplaces will continue. People will work from home more often. More home activities will rely on connectivity. All of this means that seamless, 'always-on' connectivity and greater data consumption are here to stay too.



Overall monthly mobile traffic growth in our core network vs. January 2019



x2.3

mobile traffic growth in our core network (January 2022 vs. January 2019)



Availability of next generation network connectivity

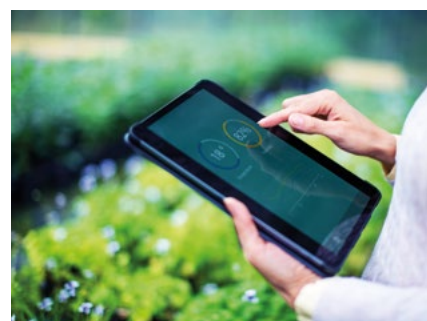
Around the world telcos are making huge investments in next generation networks and technology. In the UK, 5G and full fibre rollout is progressing at pace.

These new high capacity, high speed networks will support greater consumption of connectivity and new digital technologies. These technologies will open up new opportunities (like 5G private networks) and shape how customers interact with the digital world.

Digitalisation and the shift to cloud

In parallel to revolutions in access networks, other digital technologies like cloud computing, AI and machine learning continue to evolve. This is changing the way people live and work.

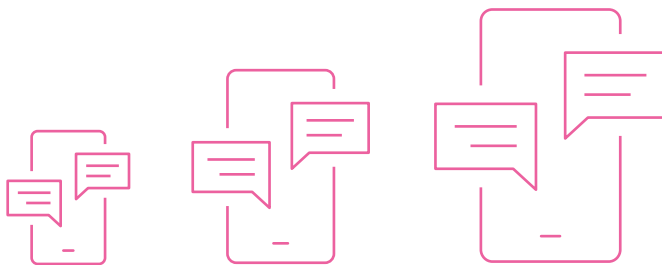
Businesses are continuing to digitise, with communication and collaboration tools, and with shifts to cloud. And the explosion of available data makes AI and machine learning a critical part of new solutions, services and business operations.



Connected devices and computing at the edge

Connected devices, machines and sensors are playing an increasingly important role in factories, homes and workplaces. As they become more fundamental to lives and businesses, reliable connectivity does too.

Alongside this, edge computing is changing how people and machines connect – and what can be done with these connections.



Competitive markets

Competition is strong in all our active markets. In the UK fixed access wholesale market there's more investment from alternative network providers (altnets) as well as established players. Traditional telcos and new entrants in the consumer and enterprise connectivity markets continue to drive intense competition.

As connectivity and digital service markets more closely intertwine, we face a wider set of competitors – including non-traditional digital and big tech players.



Data privacy and cyber security

The unstoppable rise of digitalisation, connected devices and connectivity services means an increased focus on data privacy and the threats posed by cybercrime. Consumers, businesses and regulators want more control and transparency over personal information and how, where and why data is kept and used.

Cyber attacks and data breaches in the past year highlight how much damage is done when something goes wrong. Customers need a trusted provider to help them prepare for, identify, mitigate and manage threats.

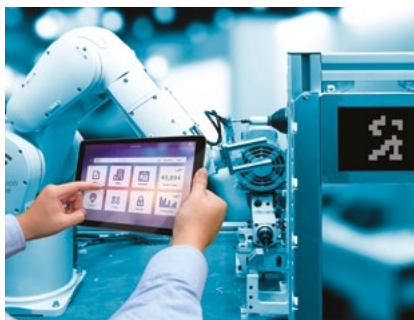
Caring about societal and environmental impacts

Today consumers, enterprises and governments want to buy from, or work with, companies that show they care about society and the environment.

Companies that have a clear purpose, behave responsibly, offer solutions that help customers address these issues, and directly help tackle climate change, environmental challenges and inequality will benefit.

Macroeconomic environment

The past two years have seen unprecedented levels of economic uncertainty. The pandemic continues to disrupt economies across the world and geopolitical tensions add further uncertainty. There are positive signs with potentially more stable, positive growth and low unemployment as we emerge from the pandemic. But inflation, supply chain disruptions, rising interest rates and depressed levels of business investment continue to impact our business and our customers.



Regulatory update

Much of our commercial activity is regulated in recognition of our significant presence across a number of markets. As a result of this, we need to engage closely with several UK regulatory authorities but with Ofcom being our key focus. Over the past 12 months that engagement has touched upon some crucial issues for the UK telecommunications market in general and for BT Group in particular.

Government support for fibre

Government has supported the sector to accelerate and cut the cost of network deployment, since this is essential technology that will deliver widespread economic and social benefits right across the UK. We believe there is still more the Government could do.

The current super-deduction for infrastructure investors has provided positive support to our fibre rollout, and we are arguing for it to be extended in some form, beyond the current end date of March 2023, to provide the right incentives for future, further investment.

Further investment could be encouraged by making business rates for fibre networks more fair and predictable. At the same time, 'barrier busting' measures to facilitate wayleaves negotiations, planning and access to buildings and land could also assist in accelerating full fibre rollout.

The Government is progressing with 'Project Gigabit' to support fibre deployment to the 'final 20%' where commercial build is unlikely. This is likely to be drawn out beyond current commercial build timescales – targeting nationwide gigabit connectivity by 2030.

Some of the original planned £5bn of funds are now being allocated. We are continuing to engage with the Department for Digital, Culture, Media & Sport (DCMS) and the Building Digital UK (BDUK) executive agency on the framework for procuring them, building on our extensive commercial programmes that are already delivering significant volumes of full fibre to rural communities.

Shared Rural Network (SRN)

We're making great strides extending 4G rural coverage through the SRN initiative. The SRN will extend coverage to 95% of the UK's geography by the middle of this decade, delivering better connectivity to local communities and businesses.

We've already improved coverage in over 800 areas since the start of the programme in March 2020. And in December 2021 we announced plans to boost coverage in another 1,500 locations by 2024.

All IP

UK landlines will move from the legacy public switched telephone network (PSTN) to be IP-based by the end of 2025 – a key enabler for the UK's wider move to full fibre. We recognise that this is a sensitive project given the need to protect vulnerable customers and the UK's Critical National Infrastructure.

The scale and nature of this challenge has meant we have put in place a pause on the managed migration of our consumer customers whilst we seek to implement additional measures to protect vulnerable users. We will continue to engage closely with Government, Ofcom, industry and user groups to minimise any disruption for all customers.

Consumer fairness

UK regulators rightly prioritise consumers' interests. We support this and want regulation which delivers better outcomes for all customers, while supporting the vulnerable ones. We've continued to work with Ofcom to show how we're sticking to their Fairness for Customers commitments we signed up to in June 2019. That includes:

- supporting customers and helping them engage with the market
- making sure services work like they should
- making it quick and easy for customers to switch CPs
- making sure everyone gets fair treatment.

This year we launched Home Essentials – a new tariff for financially vulnerable customers. It has wider eligibility and is easier to access than our previous social tariff.

We've also voluntarily improved our protections for customers who don't take a new deal when their contract ends. BT broadband customers get a lower capped price rise than before. And we've been moving more customers on to BT Halo – which means there is no change to what they pay when their contracts end.

EE mobile handset customers out of contract for more than three months get a price discount from then on. When existing BT, EE and Plusnet broadband or mobile customers' contracts end, we offer them the same price as new customers if they choose to re-contract.

Vulnerable customers are offered regular account reviews to make sure they're on the best deal for their needs.

 In April 2021, we voluntarily decided to introduce Board-level oversight on our approach to consumer fairness through the BT Compliance Committee (see [page 96](#)).

European Electronic Communications Code (EECC)

In October 2020, Ofcom launched new customer protections based on EECC rule changes. In line with Ofcom's recommended phases we implemented most in December 2021, with the rest following in June and the remainder in April 2023. The rules give customers enhanced rights. For example since December 2021 all mobile devices have been sold unlocked, and vulnerable customers with specific needs have had better access to information in a format they choose. From June 2022, before customers order anything they'll get an easy-to-read contract summary which will also be easy to compare to other providers and services.

Whilst we agree with what the EECC rules are trying to achieve, we feel that some of them are really complicated. An example of this is the rule on the customer's ability to end any or all elements of bundled services contracts for any non-beneficial change made to any element of that bundle. To give this right to customers, our systems need to be able to recognise Ofcom's broad definition of 'linked contract' across any combination of our fixed and mobile services, even across brands. We'll keep working through our business and systems to comply with this from June 2022, while simultaneously planning how to minimise any unintended consequences.

Following Ofcom's final decision in September 2021, we've been working with the rest of industry to design and implement One Touch Switching. This new 'gaining provider-led' process will help customers switch quickly and seamlessly, not only within the Openreach network, but also between different networks. The deadline is April 2023. This is extremely challenging as there's a lot of complex cross-industry work to be done. But we support Ofcom's proposals. They'll benefit both home and business customers.

Net neutrality

Ofcom has started a review of the net neutrality framework which requires internet service providers to treat all internet traffic on their networks equally. Ofcom will consider whether the rules are still fit for purpose, given market developments and how changes could support innovation while still protecting customers. Ofcom aims to publish its thinking later in 2022.



Mobile strategy

As technologies develop markets change, but they must still deliver mobile services that work for consumers and businesses. So Ofcom is conducting a broad scope mobile strategy review of the next five to ten years. It will include mobile investment returns and how competition (including large tech companies) and the mobile value chain could change.

In parallel, DCMS has launched a 'Wireless Infrastructure Strategy' review with an initial call for evidence. It will explore UK wireless connectivity over the next decade – and whether current policy and regulation will support the investment and innovation needed.

Ofcom and DCMS' reviews come at a really important time. The UK has made a strong start to rolling out 5G. It was one of the world's first countries to launch commercial networks in 2019, led by EE.

But 5G is still in its infancy. New technologies and use cases will emerge in the coming years, transforming UK productivity and playing a critical role in the UK's plan to move to net zero greenhouse gas emissions.

World class connectivity will underpin this potential. That's why the Ofcom and DCMS reviews are so vital. They must make sure policy and regulation continue to support the market structures that will minimise risks and maximise opportunities for the UK.

Broadband universal service

We're committed to improving the UK's digital infrastructure, bringing the benefits of good connectivity to all parts of the country. According to Ofcom, superfast broadband is now available to 96% of UK premises, with full fibre broadband now available in 28% of premises.

While our investment in faster and more reliable networks will continue to deliver connectivity for the vast majority of communities across the UK, some areas are unlikely to benefit from commercial rollout in the short term. In these areas, we are proud to act as a partner to Government in addressing the connectivity challenge. As the designated universal service provider for broadband, for example, we supply faster connections for those unable to get decent broadband if the cost of doing so is less than the threshold of £3,400 set by Government.

In October 2020, Ofcom started an investigation into whether we were in compliance with our obligations as a broadband universal service provider. Following discussions with Ofcom, we subsequently introduced a new payment option for customers to share any additional costs of upgrading the network to ensure the costs of getting connected can be shared predictably and fairly. Ofcom closed the case in November 2021. More broadly, we continue to support the Government as it considers how to address the connectivity challenge for communities unable to benefit from the broadband universal service.

Our strategic framework

Long-term value creation

Our strategic framework, based on three pillars, explains what we will do to create value for all our stakeholders and deliver our ambition.



Purpose

Why we exist

We connect for good

Our purpose is simple and drives everything we do.

We let people and organisations harness the power of technology – removing limits and unlocking potential. From helping organisations share ideas that shape the future, to connecting friends and family across the world, to supporting life-saving emergency services in the UK, the pandemic demonstrated our purpose's relevance and importance.



2030 Ambition

Who we must become

To be the world's most trusted connector of people, devices and machines

Our 2030 ambition is who we must become.

Businesses, governments, and millions of people already trust BT Group every day to connect them to who and what they need.

As technology evolves and becomes an ever more vital part of our customers' lives, we must do more to keep and grow their trust. Customers and all our stakeholders have to know we're on their side. We must keep proving that they can depend on us to help them thrive in the digital world.



Values

What will guide us

Personal, simple, brilliant

Our values are what guide us to deliver on our purpose and ambition.

And alongside them, in September 2021 we launched 'Being trusted: our code' – a guide to help remind colleagues of our responsibility to society.

The code is ten simple statements setting out the high standards we expect from our business, colleagues and suppliers. It will help us meet legal and regulatory obligations, create a fair environment and welcome, hear and value all voices. And it will help us be a force for good:

- We support, respect and appreciate each other
- We always put wellbeing and safety first
- We create standout customer experiences
- We keep information safe
- We are trusted with our finances
- We compete to win fairly
- We don't cut corners
- We take a responsible approach to tech
- We love our planet
- We speak up



1

Build the strongest foundations

We're investing in the *best converged network*. 'Best' means reliable new full fibre and 5G networks, with the broadest reach and enhanced network capabilities. These will give our customers superior connectivity experiences.

We're creating a *simpler, more efficient, and dynamic BT Group*. We're simplifying our product portfolio and processes and modernising our digital and network technology. We want to be easier to work with, deliver more efficiently and be more responsive to customers' needs.

We're building a *culture where people can be their best*. This means cutting complexity, transforming our workplaces, giving colleagues every chance to learn and grow and creating a future-ready, agile organisation. We want all our colleagues to have an outstanding experience working for us – and feel free to be themselves.

2

Create standout customer experiences

We're providing *outstanding service and experience*. That means market-leading customer service and brilliant digital touchpoints. And it means giving experiences to customers that are personalised, trusted and secure.

We're creating *smarter, differentiated solutions and outcomes* for customers. We don't just sell products, we provide next generation converged connectivity solutions and integrated services. And for our large enterprise customers we also offer differentiated service management and expertise. We want to make sure that the solutions we offer make our customers' lives better and deliver the outcomes that they need.

We're creating value through *commercial excellence* – with leading sales effectiveness and superior marketing and pricing capabilities. We want customers to recognise that our solutions make their lives better, create value for them and deliver the outcomes they need.

3

Lead the way to a bright, sustainable future

We're *positioning our corporate portfolio for growth*. That means reviewing what we own, where we partner and where we invest. We want all parts of our business to create as much value as possible.

We're exploring new *tech-driven growth engines*. We're seeking out opportunities to build new connectivity-related businesses based on our assets, capabilities and expertise. We want the businesses we grow to deliver outstanding outcomes to our customers and country.

We're creating a *responsible, inclusive and sustainable business* – investing in digital skills, championing responsible technology and tackling climate change, environmental challenges and inequality problems. We want to lead the way for businesses and show customers that we're contributing to a better world.

We're building *trusted partnering relationships with stakeholders*. We're a diverse business. We have many relationships with colleagues, customers, governments, regulators, shareholders, suppliers and communities. We take these relationships seriously. We want to continue to build trust with all our stakeholders as we grow.

Progress against our
strategic framework

1

Build the strongest foundations

50,000+

homes and businesses built
to with our full fibre network
every week



c. 1.8m

customers connected to our
full fibre network (up 96% on
last year)



The first year of
our Digital unit –
a key enabler for
process efficiency
and innovation



7.2m

5G ready customers, 120%
more than a year ago

50%

our 5G network now covers
over half of the UK population

5G



We're building the strongest foundation for our future. That means transforming what we sell, what we do and how we do it. To do that, we must invest in the best converged network, create a simpler, more efficient and more dynamic BT Group and build a culture where people can be their best.

The best converged network Market leader in full fibre

This year we expanded and accelerated our ambition to reach 25m premises with full fibre by December 2026. The target includes committing to build to 6.2m homes and businesses in hard-to-reach rural communities so they too can benefit from our next generation network.

Our investment of approximately £15bn in full fibre will support the UK's digital economy into the future. Thanks to our engineers and network partners that are using the latest innovations in tools and processes, we're rolling it out at low cost and at an unrivalled pace. In total we've now passed over 7m homes and businesses, including over 2m in rural areas. And every quarter our build rate improves – with the fourth quarter of FY22 being our best yet.

Right now, our engineers are building to over 50,000 homes and businesses every week. That's nearly 300 an hour – faster than every other major fibre builder combined. And we're doing it at lower cost. Because of productivity improvements, earlier this year we announced our expected build cost per premises was £50 (c. 15% on average) lower than we initially planned.

42

CPs have signed up to the Equinox pricing deal on our full fibre platform

Almost 1.8m customers are already connected to our full fibre network (up 96% on last year). Our Consumer unit leads in full fibre uptake, with over 1m total connections and 20,000 new full fibre connections every week.

Importantly, 42 of our CP customers have already signed up to the Equinox pricing deal on our full fibre platform. And we continue to strengthen our CP relationships. For example, Sky's engineers can now connect their customers to our network directly.

Market leader in 5G

We were first to launch 5G in the UK in 2019 and we're rolling it out further and faster. Our 5G network is now available in hundreds of towns and cities across the UK, and we offer 5G in more places than any other network.

This year we announced our 5G rollout now reaches over half the UK population, five years ahead of the Government's ambition, and we're aiming to cover c. 90% of the UK geography by 2028. To support this, we are utilising the 700MHz and 3.7 GHz spectrum we bought in 2021. And we've been doing all of this while implementing the Government's directive to remove equipment from high-risk vendors in the network.

The new network will give customers faster speeds, more reliable service, and near-instant connectivity. Our 5G customer base keeps growing. We now have 7.2m 5G ready^a customers, 120% more than a year ago.

By working with partners to harness the power of 5G we've achieved a number of firsts. We've travelled through rainforests via an EE 5G and BBC Green Planet augmented reality experience which went live in February. And with North Lanarkshire Council we created the UK's first 5G immersive classroom in Scotland.

Overall EE's outstanding network continues to be recognised. This year we kept our RootMetrics #1 UK network status for the 8th consecutive year. We were also #1 overall, in voice, in data, and in crowd in London according to Umlaut.

Overall performance Rootscore award winner

EE	95.3
Vodafone	90.9
Three	88.6
O2	87.6

Enhanced network capabilities and broadest reach

Starting with the core network, we're upgrading our technology to make our network intelligent, converged and virtualised. We've hit major milestones in our Mobile Cloud Core project this year as we move to a single converged IP network starting with a standalone 5G core.

This year we signed a partnership agreement with a major cloud provider to deploy an edge platform in our network. This will improve customers' connectivity by reducing latency, optimising data traffic, enhancing security and meeting data residency needs for applications hosted in the BT network edge.

Our Adastral Park R&D facilities continue to push network boundaries. For example, this year, together with partners we ran a world first trial of Quantum Key Distribution (an ultra-secure communication method over hollow core fibre cables).

We want customers to be able to connect wherever they go. That's why our network coverage is the UK's broadest. Our mobile network reaches 99% of the UK's population and Openreach's fixed network reaches over 31m homes and businesses.

^a EE consumer customers receiving or capable of receiving 5G network connection using one or both of a 5G-enabled handset and a 5G-enabled SIM.

Progress against our strategic framework continued

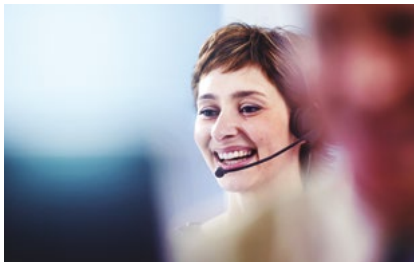
Build the strongest foundations

This year we deployed 200 new small cells into existing street assets like lamp posts and telephone boxes around cities such as London, Leeds and Manchester. These small cells boost capacity in high demand areas, allowing customers to benefit from download speeds up to 300Mbps.

To have the broadest reach we're not just building in towns and cities. With Government and operators, we're increasing EE's network ambition to grow rural coverage by 4,500 square miles. That's more than the Lake District, Snowdonia, Peak District, Dartmoor and Cairngorms National Parks combined.

On top of our fixed and mobile networks we provide the UK's most extensive public wi-fi network. It has more than 500 hotspots and extra coverage in cities through our digital street hubs. The latest versions of our street hubs include environmental monitoring, rapid mobile device charging, an emergency call button as well as free gigabit capable wi-fi.

We've also rolled out 4G in Glasgow's subway stations and have announced a partnership to provide mobile connectivity throughout the London Underground.



We are also working to cover more hard-to-reach places with things like portable cells and low earth orbit satellites. This year we announced a partnership with OneWeb to offer satellite connectivity to consumers and businesses. The first trials are happening in 2022.

c. 50%

of EE mobile journeys in digital channels have been automated

4,500

we're increasing EE's network ambition to grow rural coverage by 4,500 square miles

A simpler, more efficient and dynamic BT Group

Simplified product portfolios

We're simplifying and refining our product portfolio. We're retiring old products to create a new streamlined portfolio of solutions that deliver brilliant experiences and serve our customers' future needs. We're also withdrawing products with outdated features, slow speeds and data caps to reduce the complexity of our business.

In the last 12 months we've made big progress. In line with our aim to close the PSTN network by December 2025, Openreach has started the process to stop selling legacy products to c. 5m premises across over 550 exchanges as of March 2022.

52% of our legacy Global portfolio has been or is currently being withdrawn. And in Consumer we've halved the number of broadband propositions by cutting old promotional tiers.

Transformed customer journeys

We want the best customer engagement in our industry. So, we're redefining our digital journeys to be simple, omnichannel and with customer-led design. We're also automating our processes and using AI capabilities for better experiences.

In Consumer, we've automated c. 50% of the EE mobile journey in digital channels, reducing the amount of manual interventions.

We've simplified the EE website by cutting back the number of links in the online shop from 50 to less than 15. We've also improved EE's digital upgrade journey, boosting customer satisfaction and increasing order volume by 23%.

By transforming our Consumer customer journeys and call centre operations we've seen 14% fewer broadband customers and 5% fewer mobile customers needing to call us to fix an issue. This has reduced our service costs by 9% year on year.

In SME we have improved broadband acquisition journeys for small businesses. We've seen a 3.1pp increase in the digital channel share, a 53% increase in conversions, a £15 higher average order value and 18% of orders wanting extra lines.



For corporate and public sector customers we have enhanced our EE digital self-serve capabilities for mobile customers with the volume of monthly online service transactions increasing by over 40% in the year. For customers this means they can keep track of their costs and manage more aspects of their accounts quickly and efficiently online, without needing to contact an agent.

In Global, we have rolled out AI-based solutions across almost 700 customer queues. It's cut the effort needed to monitor and manage incidents where no fault is found by 45% – and freed our agents to spend more time on issues that really matter to customers.

In Openreach we have a new systemic treatment for repeat faults, helping a specialist team investigate and find permanent fixes. It's driven down the number of complex customer faults repeated three or more times by 50%. We've also put in a new automated scheduling system which is helping our colleagues in the field complete 14% more tasks a week.

Modern, modular IT architecture

By embracing integrated platforms, data-driven analytics and AI, we're radically simplifying and modernising our IT architecture. It's helping us be more agile, make better decisions and create better outcomes for us and our customers.

We are implementing Google's powerful Cloud Platform to become smarter in our data analysis and AI capabilities across the group. Our new cloud-based decision engine is already using network and premises data to optimise routes for our engineers.

We have announced our intention to accelerate moving data into our Cloud Data Platform and aim to have 60% of core data in the cloud by the end of 2023. Using AI techniques, we have already successfully used the platform to train our in-app messaging and automated assistant, Aimee, and have unlocked over £100m in potential benefits from our existing data in the next five years – in terms of revenue potential and savings opportunities.

Simultaneously, we are dramatically simplifying our technology estate, having announced the aim to reduce our application count from over 2,420 in 58 stacks to fewer than 500 strategic applications in 14 stacks in the next five years.

We're changing how we develop products and services, with new digital processes making it faster and simpler to add new features and build new solutions. This includes simplifying our service and change management processes, and implementing our new, modular, event-oriented architecture.

Our Salesforce Evolution is rationalising and upgrading our sales processes, so we are better-placed to deploy changes and launch products and services on an efficient customer-focused platform.

Across the group, our transformation programmes Making Finance Brilliant and iConnect are streamlining complex finance and HR systems and data, to make them easier to use and automate.

Customers on strategic networks

So everyone gets the most reliable connectivity, we're investing in next-generation strategic networks. This also unlocks commercial benefits by letting us gradually retire old networks with high running costs.

We've made good progress on moving customers off our legacy networks and this year we switched off Featurenet – the first of eight networks targeted for closure – saving us approximately £1.8m in run-rate energy costs.

We take care to minimise disruption when gradually moving customers off these old networks and this year we paused managed migrations off our PSTN network for our consumer customers, as we develop alternative solutions to protect vulnerable users.

As we look to recover and reuse scarce resources, in line with our commitment to sustainability, this year we estimated that as we replace old copper networks with fibre, we'll be able to recover and sell up to 200k tonnes of copper through the 2030s in line with customer migrations.

Competitive cost base

We're saving money as we modernise – through better ways of working, improved processes and productivity and by getting rid of old systems and networks.

We reached our target of £1bn gross annualised cost savings earlier this year and 18 months earlier than planned. We have now extended our gross annualised cost savings target to £2.5bn by the end of FY25, all within the original expected cost to achieve of £1.3bn.



You can read about costs savings achieved to date on [page 48](#).

We're also finding better ways of doing business. 'Digital Garage' is a suite of tools which automates high-volume, low-level procurement activities.

Our new procurement company, BT Sourced, is fundamentally shifting our costing and sourcing models – streamlining the way we buy goods and services and driving innovative partnerships with suppliers.



£1bn

we've reached our target of £1bn gross annualised cost savings earlier this year and 18 months earlier than planned

Progress against our strategic framework continued

Build the strongest foundations

A culture where people can be their best

We can't deliver our ambition without our colleagues. So our people strategy aims to make BT Group a brilliant place to work. This year, we focused on continued skills development, diversity and inclusion, and health, safety and wellbeing.

Skills and organisational development

Continually nurturing future skills creates a culture where people always want to be at their best. So we continue to invest in colleagues' development – in things like technical skills, agile working, resilience and adaptability.

It's crucial to match skill supply to future demand. So we're integrating workforce and skills planning capabilities, combined with AI, to bring data-driven external benchmarks into skills development. This is going to help us find ways of matching reskilled colleagues with areas of demand.

We're also building up flexibility between retail store and contact centre colleagues, which will help to support customers where and when they need.



This year we hired over 15,200 colleagues, c. 10,800 of them in the UK. Graduate and apprentice programmes play a big part in attracting fresh talent, and we hired more than 3,400 apprentices and close to 300 graduates. At the same time c. 17,000 colleagues left the organisation – c. 13,700 through natural attrition and c. 3,100 through paid leaver programmes. During the year, Openreach announced a plan to add 4,000 new jobs to support full fibre rollout, 3,000 of which will be apprentices.

We champion flexible, continuous professional development. Our future-ready programme equips colleagues with skills and knowledge to future-proof their career and achieve our ambition. On top of that, 25,000 engineers passed through our 11 world class training schools last year – reskilling for the full fibre world.

In July our Consumer unit was placed 9th in the Best Big Companies to work for and won a special award for 'giving back'. The award focused on simplicity, leadership and wellbeing and gave us a world class 3-star score.

Our new Digital unit went live on 1 April 2021. As well as building our digital capability it will lead our broader cultural transformation to more flexible and agile working. We intend to significantly reduce our dependency on costly external contractors and bring more digital capabilities in-house over the coming years to boost our productivity and reduce our costs. This year we also signed a new agreement with Distributed that will enable flexible resourcing via freelancers with high demand digital skills. This model is a sustainable way of meeting short-term demand and provides new routes to work regularly with BT or become a permanent employee.

Diversity and inclusion (D&I)

Diversity, inclusion, accessibility and equality are everyone's business. That's why they're core elements of our people strategy.

This year we rolled out mandatory anti-racism training to all colleagues, helping them challenge racism if they discover it anywhere in our business. And the reverse mentoring programme we started in 2020 for our *Executive Committee* and senior leaders has helped shape our D&I plans.

We also announced stretching targets to attract, recruit, promote and keep women, people from ethnic minority groups and disabled people. By 2030, we want our workforce (excl. Openreach) to be made up of 50% women^a, 25% ethnic minority^b and 17% disabled^b colleagues. And we are making progress toward these goals. As an example, this year Openreach recruited over 530 female trainee engineers. As of 31 March 2022, nearly 11% of UK employees said they were of Black, Asian or minority ethnic background^c.

The things we're doing and the targets we're setting show our commitment to making BT Group a fully diverse and inclusive workplace.



Read more on diversity and inclusion, including our Diversity and Inclusion Report, at bt.com/diversity-and-inclusion



You can find out about our Board's diversity and inclusion on [page 87](#).

Health, safety and wellbeing

Covid-19 continued to have a real impact. We focused most on supporting our colleagues, preventing illness through limiting workplace transmission, communicating with colleagues on managing safety during the pandemic and reinforcing testing and vaccination programmes.

Working with the Department for Health and Social Care, we piloted workplace testing and test click and collect schemes, and supported home asymptomatic testing. During the year we distributed c. 250,000 rapid lateral flow tests to colleagues, aiming to protect the most vulnerable and safely return things to as normal as possible.

^a Global workforce.

^b UK workforce only due to data limitations and based on declared data only.

^c UK employees include, amongst others, those who had not disclosed, or had responded 'prefer not to say' in respect of their ethnicity pursuant to our self-declaration campaign. None of those employees are counted for the purpose of this statistic as coming from a Black, Asian or minority ethnic background.

Gender pay gap

Our 2021 median and mean gender pay gaps are well below national and industry averages. As we build a more diverse company we've seen more women joining our engineering apprenticeship programmes. Because these are in our lowest pay quartile, this has contributed to a slight increase in our median pay gap from last year.



You can find details of progress on our gender pay gap at bt.com/genderpaygap

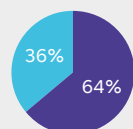
6.7%

(2020: 5.0%)
our overall median gender pay gap (UK colleagues)

5.0%

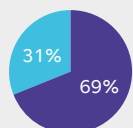
(2020: 4.9%)
our mean gender pay gap (UK colleagues)

Our people^a



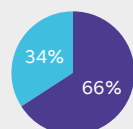
BT Group plc Board

Male	7
Female	4
Total	11



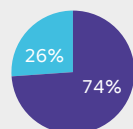
Leadership^b

Male	75
Female	34
Total	109



Senior management^c

Male	515
Female	264
Total	779



Employees

Male	74,503
Female	25,972
Total	100,475

With the pandemic's ongoing challenges – and physical and mental health effects in and out of work – we launched a series of evidence-based programmes to support our colleagues' wellbeing. These included a campaign on resilience during the social restrictions which more than 3,500 colleagues participated in. Another campaign encouraged less stigma and more conversations around mental health.

More than 700 managers had mental health training to help them support their teams with knowledge, practical skills and the confidence to respond in the right way to anyone struggling. 90% of them agreed or strongly agreed the training

gave them more confidence to deal with mental health problems at work.

When colleagues need mental health and wellbeing support and want to talk with someone, they have lots of options.

Our Employee Assistance Programme is a free, 24/7 confidential service for everyone in the organisation, with experts there to help on a range of issues. We have a mental health service with phone or face-to-face cognitive behavioural therapy, and our wellbeing portal has lots of self-guided help and support.

Sickness absence rose this year, with 3.69% calendar days lost per colleague (up from 3.02% last year^d).

To improve how we report and investigate accidents or 'near-misses', we now include supervisors and contractors in our reporting. This year we had 258 lost time injuries as a result of accidents (up from 203 last year). If and when our colleagues need support after an injury, BT-funded rehabilitation returns nearly 95% of them to full duties.

Improving our workspaces

We continued to transform our workplaces. In London, we finally bade farewell to our old Newgate Street home and moved into a brand new, state of the art HQ at One Braham in Aldgate. We also opened new sites in Birmingham and Warrington, and we completed major refurbishments in Bangor, Doncaster and Gosforth. And we're now starting developments in Belfast, Bristol, Glasgow, Manchester, Newcastle, Dundee and Plymouth.

Our investment in better working environments is definitely improving colleague satisfaction. In our Birmingham office there's been a 45% rise, taking the overall score to 81%. We're getting similar scores for all our new buildings, demonstrating that we're building strong foundations for the future.

Pay and benefits

To attract and keep the best talent, and reward colleagues for their work, we regularly review pay and benefits against competitiveness, sustainability and fairness.

For BT Group managers eligible for a bonus, we use a scorecard with a mix of financial and non-financial measures. It helps make sure bonuses match our strategic priorities and responsibilities to those of our stakeholders. And, in line with the Commitments, Openreach colleagues' bonuses are linked to Openreach's performance only.

We've also redesigned our colleague products so that all eligible colleagues get brilliant discounts for themselves and loved ones across all our brands.

Colleagues also have the opportunity to join our all-employee share plans; save as you earn and the share incentive plan, to the extent that these are operated each year.

^a Colleague headcount at 31 March 2022. Excludes approximately 500 colleagues located in jurisdictions where local labour laws restrict reporting of gender.

^b For the purpose of the UK Corporate Governance Code 2018, our leadership comprises the *Executive Committee* (excluding executive directors on the Board but including the CEO, Openreach) and all of their direct reports.

^c For the purpose of the Companies Act 2006, our senior management comprises those employees responsible for planning, directing and controlling the activities of the group, or a strategically important part of it (being members of our senior leadership and senior management teams, and directors of the group's subsidiaries but excluding executive directors on the Board). Numbers presented include 47 subsidiary directors (35 male and 12 female) who are not otherwise members of our leadership or senior management teams.

^d 2.85% as presented in last year's annual report; restated following review of calculation methodology in FY22.

Progress against our strategic framework continued

2

Create standout customer experiences



Record NPS

across Consumer, BT SME and Global



#1

EE is Rootmetrics' #1 mobile network eight years running

230,000+

Home Tech Expert visits to support our customers



We know that the connectivity solutions we provide are critical to our customers' lives and businesses. To surpass their expectations we want to deliver outstanding service and experience and offer smarter, differentiated solutions and outcomes.

Outstanding service and experience

Market-leading customer satisfaction

This year we hit a new all-time high Net Promoter Score (NPS) across the group – with best-ever scores in Consumer, BT SME and Global.

Consumer saw a +5.3 rise in the last 12 months. This was driven by improvements in our BT brand and ongoing strength in EE, and is one of the reasons for Consumer's low churn rate. BT SME saw a +3 NPS improvement in the year. And Global has seen a 20 point increase over the last two years.

We're cutting complaints too. In the latest Ofcom published report, all BT Group brands saw complaints equal to or lower than the industry average for the first time ever across landlines, broadband and mobile. EE continues to have the equal lowest complaints for a mobile company at just 1 complaint per 100,000 customers. In addition, BT broadband recorded an all-time lowest complaint rate for the brand with a year-on-year reduction of 50%.

Every single Consumer customer call is now answered in the UK and Ireland. EE remains #1 for broadband call centre satisfaction with Plusnet ranked second. EE also remains #1 for mobile call centres with BT mobile second.

In the latest Uswitch Telecoms awards, announced in February 2022, the BT and EE brands won five of the seven broadband and TV awards as voted by the public, including 'Broadband Provider of the Year' and 'Most Reliable Broadband Provider', with EE picking up the 'Best Provider for Customer Service'.

Home Tech Experts

Our partnership with Enjoy offers a delivery and set-up service to our customers across BT broadband and EE mobile products. This year we completed over 230,000 visits to support our customers and saw very high customer satisfaction with NPS above +70.

Openreach success

Openreach tirelessly kept millions of UK connections running at a critical moment in history so customers around the

country could work-from-home, attend online lessons and communicate with loved ones.

This year we achieved our best ever service across copper and fibre for Openreach – exceeding all of Ofcom's Quality of Service measures. NPS for our copper and fibre products, as measured by CPs, reached an all-time high during the year and improved by over 5 points. Overall satisfaction, as measured by end users, ended the year at 91.2% – up from 88.4% last year.

Despite the twin pandemic challenges of sickness and delays and a number of significant storms that affected much of the UK in February, we delivered our best-ever year for on-time repair at 86% with the highest ever proportion of customers seeing services restored within service level agreements (SLA).

For new copper and fibre services we offered customers a first appointment date within 12 working days 98.9% of the time (up from 96.2% last year). Only 2.3% of missed appointments were down to Openreach (lower than last year's 2.8%).

And we want to do even better. We'll continue to work with CPs to improve our processes and trial new ways of working to improve end customers' experience.

A new SoHo focus

We're more dedicated than ever to helping the UK's smallest businesses – and in July launched our new SoHo unit within Enterprise.

Microbusinesses are essential for the UK economy. And recognising the need for specialist microbusiness services, our new unit will serve their digital and connectivity needs. It will offer tailored connectivity, plus solutions around cyber security, digital advertising and digital skills training.

Brilliant digital customer touchpoints

This year we launched Aimee, an in-app messaging and automated assistant, to Android customers. It's answered c. 60% of customer queries with great customer satisfaction (NPS of c. 60).



Progress against our strategic framework continued

Create standout customer experiences

Smarter, differentiated solutions and outcomes

Smart and Full Works plans

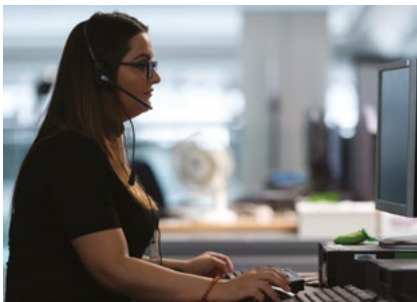
In Consumer we enriched our Smart and Full Works plans by introducing Netflix and Microsoft 365. We now have 1.2m customers on our premium plans.

Halo 3+

In February 2021 we launched 'unbreakable' Halo 3+ for our home customers. Halo 3+ has unrivalled reliability – seamlessly switching between BT's broadband and EE's 4G mobile network if there's any disruption to the fixed network.

Overall, approximately 50% of our broadband base is now on one of our Halo products and these customers have on average a 9 point higher NPS than non-Halo customers.

We've also expanded our 'unbreakable' offers for Enterprise customers. As part of our SoHo launch in June 2021 we offered Halo 3+ to microbusinesses. It comes with business grade security, complete wi-fi coverage across the workplace and free 24/7 support from our Tech Experts.



BT TV Box Pro

Supporting the next generation of TV viewing, this year we launched our newest set-top box.

It includes crystal clear 4K HDR viewing and Dolby Atmos (offering an immersive audio experience) plus up to 600 hours of recording. We also rolled out a new more intuitive TV interface.

Webex collaboration

Businesses now work differently, whatever their size. In response, we now offer Cisco's integrated Webex collaboration service to small businesses (we were the first big European CP to do so). It's improving customers' productivity, making hybrid working easier and helping us help small businesses bounce back after the pandemic.

Digital marketing hub

To help UK businesses take advantage of the 'digital first' world, we launched our powerful, all-in-one digital marketing hub in October. Many small business customers told us they struggled with digital advertising. So our digital marketing hub lets them create digital adverts, run multi-channel marketing campaigns and optimise results through a simple dashboard with bespoke recommendations and support.

Enterprise Managed Services

In October, Enterprise's Managed Services offering was appraised at maturity level 3 of ISACA's Capability Maturity Model Integration framework. This marks BT Group as the only organisation in the UK to successfully publish an appraisal at this level and recognises our Managed Services unit as having high performing work practices. We have over 2,000 managed service experts providing 24/7 support to approximately 2,500 customers across the UK and Ireland.

999

Our six call centres handle all 999 calls in Northern Ireland, Scotland, Wales and England, passing calls to the relevant emergency service. The number of 999 calls handled by BT has jumped from 29m in 2017 to over 39m last year including 180 consecutive days of over 100,000 calls answered. We also saw the busiest New Year's Day ever with our 999 agents handling over 140,000 emergency calls.

Partnering with Microsoft

In July we announced a strategic partnership with Microsoft. It's focused on cloud-enabled communications solutions – including in industry-specific areas like digital manufacturing and health. By integrating Microsoft applications and Microsoft Azure cloud

66

Halo 3+ has unrivalled reliability – seamlessly switching between BT’s broadband and EE’s 4G mobile network if there’s any disruption to the fixed network.”

50%

of our broadband base is now on one of our Halo products

with our connectivity and security solutions we can optimise business customers’ experience using collaboration tools.

As part of this partnership, we’ve also launched a new BT-branded global managed voice service – Operator Connect for Microsoft Teams. This integrates networking and voice to provide customers with a seamless and secure collaboration service that supports hybrid working.

Global next generation

Global has continued to develop a next generation service portfolio – particularly focused on cloud managed services for multinational customers.

This year we announced Rackspace Technology, Inc. (a leading end-to-end multi-cloud technology company) as a new cloud partner. Customers will benefit from us combining our network and security capabilities with Rackspace’s cloud management expertise. The partnership will uniquely position us to support customers’ cloud journeys.

In September we launched our industry-specific managed cloud solution – BT



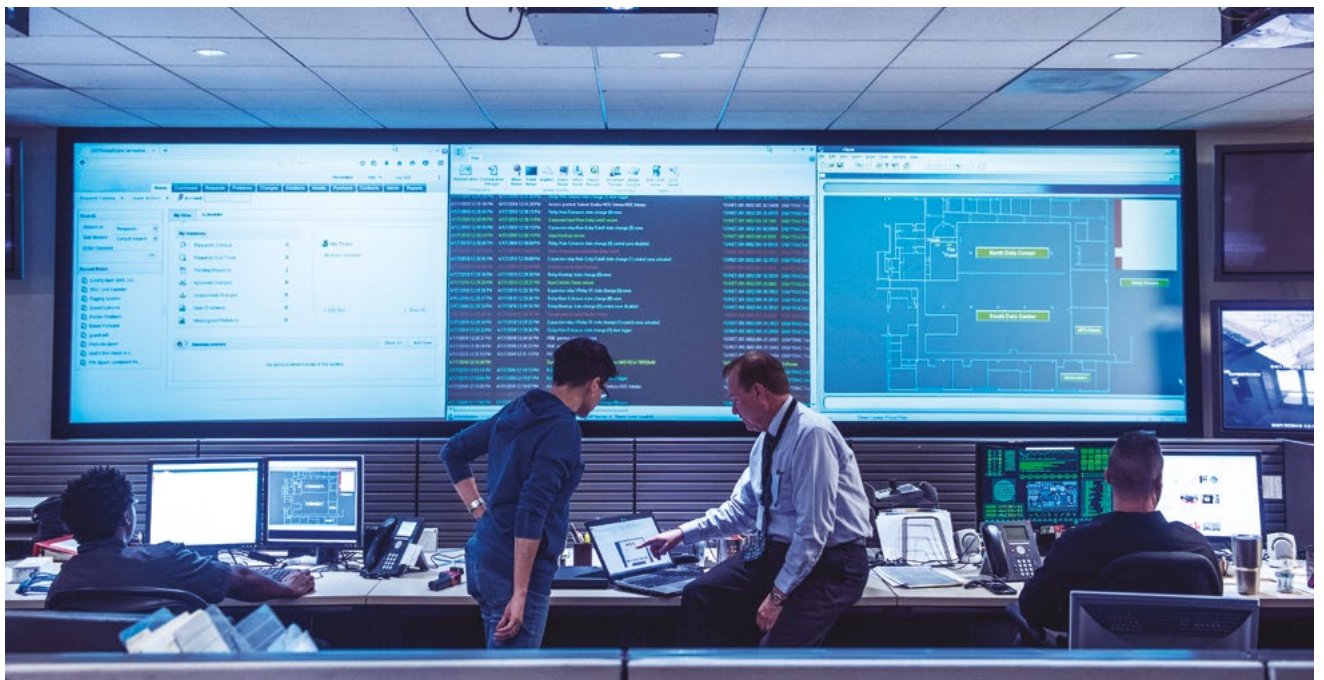
Cloud Control for Financial Services offering finance customers a secure BT-managed multi-cloud solution.

Working with long-standing partner Cisco, we launched the ThousandEyes Cloud and Internet Intelligence managed services to help customers identify faults in their network before they cause disruption.

Virtual Media Connect

In broadcasting, security, flexibility and reliability are vital. In October we launched Virtual Media Connect. It lets broadcasters deliver live video in hard to reach ‘off-net’ locations.

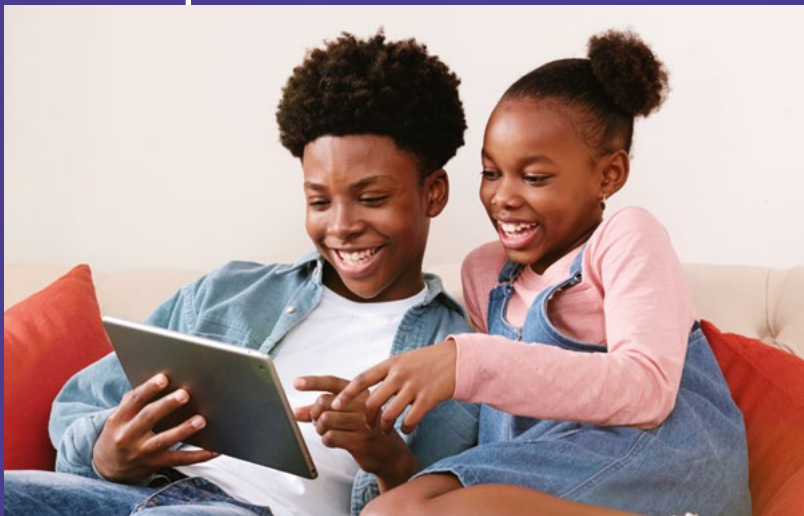
Combining BT Tower, the internet and Amazon Web Services it’s a secure, high availability way of transmitting stable video streaming wherever it’s needed.



Progress against our strategic framework continued

3

Lead the way to a bright sustainable future



14m+

people reached with help to
improve their digital skills
since FY15



6,500

every day we protect our
infrastructure, networks
and customers against
6,500 cyber attacks



55%

cut in our operational carbon
emissions since FY17



Our growth plans help us lead the way to a bright, sustainable future. We want to position our portfolio for growth, incubate new tech-driven growth engines and be a leader in responsible, inclusive and sustainable business.

A portfolio positioned for growth

We're continuing to strengthen our portfolio to create long-term, sustainable value and better outcomes for our colleagues and customers.

In May 2022 we reached an agreement with Warner Bros. Discovery to form a 50:50 joint venture company to create a new premium sport offering for the UK & Ireland – combining BT Sport and Eurosport UK. We think this is the best option for our customers and the best future for BT Sport.

We have award-winning broadcasting capabilities, production expertise and sports rights – including our access to the Premier League until 2025. Warner Bros. Discovery has unique content assets and capabilities. Combining them should boost investment and deliver bigger and better sporting content for our customers.

As we simplify our business and sharpen our focus we're continuing to divest areas where we believe there's a better owner.

In June 2021, we sold the Public Administration and Small Medium Enterprise divisions of BT Italia to Telecom Italia. This disposal was an important step to end our domestic operations in Italy, alongside the ending of our domestic operations in Latin America, Spain and France last year.

In February 2022, we completed the sale of Diamond IP, a non-core software business and provider of proprietary IP Address Management software and services.

We've partnered with market leading logistics firm GXO to outsource our supply chain activities. That includes transferring around 300 colleagues. GXO's expertise will transform our warehouse and transport capabilities, improve customer

service, cut costs and give our colleagues better career opportunities.

Incubating new tech-driven growth engines

We're driving the future of connectivity. And part of that is investing in breakthrough tech-driven growth engines in areas where we have a strong right to play. By incubating new innovation opportunities we create a pipeline of sustainable revenue streams.

Security

Protecting the group, our customers and the UK from cyber threats is a vital part of what we do. Every day we protect our infrastructure, networks and customers against 6,500 cyber attacks.

Security is a big part of our future growth too. Last year we added to our security armoury which includes a team of 3,000 specialists, 13 global security operations centres and unique network threat intelligence.

In January, IDC Market Scape named us as a leader in its European Managed Security Services Vendor Assessment report. They recognised our market-leading innovation and partnerships – coupled with proven experience and integrated security, network and cloud solutions.

In October, we launched a cloud-based, self-learning security platform called Eagle-i. It boosts our managed portfolio by improving proactive threat response. The AI-driven solution works with existing controls in real-time to predict, detect and neutralise security threats before they can make an impact.

We've invested in Silicon Valley cyber security company SAFE Security to help customers better measure and manage cyber risks. The SAFE platform expresses security risks in financial terms, pinpoints vulnerabilities and suggests mitigations. Our multi-million dollar investment gives us exclusive access to use and sell SAFE in the UK.

For UK business customers, we've made our market-leading Managed Security Services available in Enterprise. The new offers will help them navigate and manage the rapidly evolving cyber security landscape more easily.



Digital Incubation and Division X

To boost innovation, this year we created two new teams.

In Digital, an incubation team is building new digital businesses with a rigorous innovation approach to create new revenue opportunities.

Supporting it, our new start-up partnerships team provides a systematic approach to scouting, vetting and securing deals with start-ups – combining their products with our platforms and go-to-market channels. For example, Feebris, who create AI-guided tools that support care workers to capture and share precise health measurements, are one of four health start-ups onboarded by BT to date.

In Enterprise, our new Division X team is encouraging next-generation growth for customers. Division X will co-create, scale and commercialise unique solutions in areas such as 5G private networks and IoT. We want it to help businesses benefit from these pioneering technologies.

Progress against our strategic framework continued

Lead the way to a bright sustainable future

Data and AI solutions

We continue to unlock opportunities around our data assets.

Creating anonymised, crowd movement insights from our mobile network, our AI solutions have grown more than 90% in a year. They've given customers rich behavioural insights like understanding catchment areas for regional airport passengers.

We were also proud to support the Department for Health and Social Care with objective, evidence-based analysis that informed the local and national response to Covid-19.

Healthcare

In digital healthcare, our Division X team has created a Clinical Advisory Board of eight top NHS clinicians. Their insight and perspective will be invaluable as we develop solutions that use technology to create better outcomes and experiences for the NHS and its patients.

Drones

In September, we ran an automated drone trial in Southampton with Associated British Ports and RoboK. It used drones to automatically identify, track and analyse the number of vehicles in the port at any given time.

Project Xcelerate, delivered in partnership with award-winning unified traffic management software provider Altitude Angel, is the UK's first commercial drone area in open and unrestricted airspace. Supported by the Government and aviation industry, we're bringing together expertise to test drones' capabilities and showcase potential benefits.

Our Manifesto

In December, we launched the BT Group Manifesto (Manifesto) which outlines how we will accelerate growth through technology that is responsible, inclusive and sustainable. It's not only a sustainability plan. It's a growth plan rooted in our purpose to connect for good. Our Manifesto commitments are key to realising growth in our connectivity solutions and new tech-driven growth engines.



Accelerating growth through technology that is...

Responsible	Inclusive	Sustainable
New tech must earn people's trust and transform lives for the better	The future of tech must be diverse and inclusive for everyone to benefit	Tech must accelerate our journey to net zero emissions and to a circular economy
We will - invest in new growth tech to help us live and work better - apply responsible tech principles across our value chain - partner to build a diverse talent pipeline to drive the UK's digital economy and growth.	We will - pass 25m homes and businesses with full fibre by December 2026 - expand 4G and 5G - help 25m people with digital skills by the end of March 2026 - build a diverse workforce through our diversity and inclusion targets.	We will - be a net zero business by the end of March 2031, with suppliers and customers being net zero by the end of March 2041 - help customers avoid 60m tonnes of CO₂e by 2030 - build towards a circular BT Group by 2030, and a circular tech and telco ecosystem by 2040.

We contribute to the UN Sustainable Development Goals



We've been on this journey a long time and take our role in society incredibly seriously. The Manifesto recognises that we'll only succeed by helping solve actual problems faced by our customers and society. It's about using our scale and technology to grow and catalyse the changes desperately needed in the world.

The Manifesto includes measurable commitments to amplify our positive impact for people and planet – combined with a clear commercial agenda.



To read more download our BT Group Manifesto Report at bt.com/manifestoreport

Progress against our strategic framework continued

Lead the way to a bright sustainable future

A responsible, inclusive, sustainable business

Responsible

New tech must earn people's trust and transform lives for the better.

Applying responsible tech principles across our value chain

Our responsible tech principles help us think about benefiting people and minimising harm every time we develop, buy, use and sell tech. They're grounded in the UN Guiding Principles on Business and Human Rights and are part of our risk management framework.

We apply the principles right from the start when we design new tech. We've strengthened our privacy impact assessment process with a new online tool that integrates responsible tech and human rights considerations into business decisions.

Our responsible tech steering group oversees the implementation of the principles. The group continued its deep dive into emerging risks and strategic growth areas for BT Group this year, inviting external experts to debate the benefits and risks of topics such as data monetisation and custodianship.

BT Sourced, our new procurement company, has responsible and sustainable criteria embedded in its processes – giving our buyers a clear view of related supplier risks and opportunities. We've upped the weighting of these criteria from 10% to 15% in initially assessing who to buy from.



You can read more about BT Sourced on [page 39](#).

We've continued working with others to protect privacy and free expression and prevent online harms – from misinformation to online hate. We're currently being assessed against the Global Network Initiative Principles on Freedom of Expression and Privacy.

We've also expanded the scope of our global sales due diligence process. This will help us better identify and address the potential human rights impacts of our products and services.

Inclusive

Future tech must be diverse and inclusive so that everyone benefits.

Championing digital inclusion

We're working to make our networks and tech affordable and accessible to all.

We're helping more low-income households benefit from our networks. Our social tariff BT Home Essentials offers broadband and calls at around half the price of our standard fibre package. It's available to all customers on Universal Credit and other means-tested benefits. And Openreach's Connect the Unconnected initiative waives connection fees for eligible customers on Universal Credit.

More than one in five British adults say unexpected life changes during the pandemic mean they now need extra support. So we've launched our Here for You website – putting all our customer support in one easy-to-navigate place. We've also given extra training to customer service colleagues to support these customers.



We're also expanding digital access to more rural areas – read more about our UK network investment on [page 21](#).

Upskilling the nation

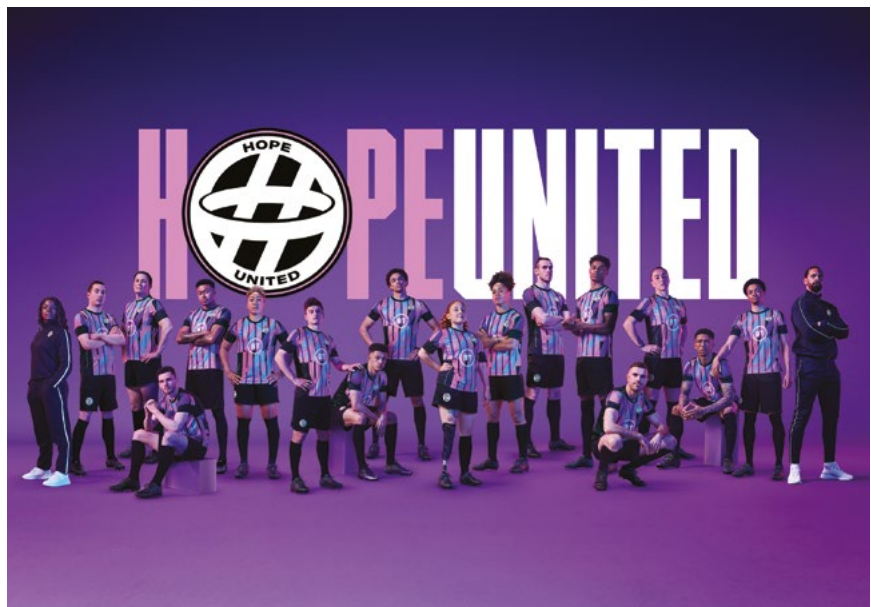
High-speed connectivity through our networks will make a huge difference to people and businesses in the UK. But only if they have the skills to make the most of the digital world.

We've helped 4.6m more people improve their digital skills this year – from small businesses and jobseekers to kids getting their first phone. We've helped 14.7m people since FY15 and we're on track to reach our target of 25m by the end of March 2026.

Together with Google, we've given small businesses free, one-to-one mentoring sessions to help them harness digital skills to grow. We've also run webinars with Small Business Britain and invited entrepreneurs to share advice and practical tips.

This year we reached over 33,000 jobseekers through our Work Ready virtual training sessions and ran a summer Stand Out Skills campaign to help them be more confident when applying for jobs. Our colleagues have mentored 1,000 of the 2,800 18 to 24-year-olds who've completed Avado's FastFutures training programme since it began in 2020.

We've created the UK's first phone licence, to help prepare kids for life online. EE's PhoneSmart Licence is a fun and educational online resource to help young people learn how to stay safe and be kind



online. And targeting online hate, our Hope United campaign was led by a diverse team of top footballers, to help give people the digital skills they need to beat online hate and be a good team player on social media.

In India, our partnership with the British Asian Trust has helped bring skills and education to 738,000 young people, and in doing so we've exceeded our target of enabling 100,000 teenage girls to stay in school and develop better resilience and employability skills.

Sustainable

Tech must accelerate our journey to net zero emissions and to a circular economy.

Reaching net zero

We've led on climate action for 30 years. And now we're acting faster than ever before, bringing forward our net zero goal by 15 years. That means we'll be a net zero carbon emissions business by the end of March 2031 and a net zero business for our supply chain and customers by the end of March 2041.

Since FY17 we've cut our carbon emissions intensity by 55% – slightly down on last year's 57%, as a result of the rebound effect from the pandemic and an increase in vehicle emissions to support our full fibre rollout.



We're on track to reach our 87% target by 2031 (a group KPI) – see [page 45](#).

All of the electricity we consume worldwide is renewably sourced^a. This has helped us cut our operational carbon emissions by 55% since FY17.

We've continued making our networks more energy efficient and investments in our new offices have all been done with sustainability in mind. Our newly opened Birmingham and London offices are BREEAM^b Excellent buildings which minimise environmental impact. Our One Braham London HQ alone should save over 3m kWh of energy a year.



Overall, we've cut our global energy consumption by a further 9 GWh this year. We've added 700 more electric vehicles to our commercial fleet (now over 1,000 in total), we've increased the number of charging points at our sites and engineers' homes, and continued to push for policy measures to support the wider transition to electric vehicles. We're aiming to transition the majority of our vehicles to electric or zero carbon emissions by 2030.

We continue to work with suppliers to cut carbon. Since FY17 we've cut our supply chain emissions by 28%, making good progress towards our 42% reduction target by 2031. Our pioneering 'climate clause' commits 10 of our key suppliers to make measurable carbon savings during the life of their contracts with us.

Helping customers cut carbon

This year around £5bn (25%) of our revenue came from carbon-cutting solutions. We've set a new goal to help customers avoid 60m tonnes of CO₂e^c by 2030 – by adopting new products, services and tech like FTTP, 5G and IoT.

Through our Green Tech Innovation Platform, we're working with tech scale-up partners on solutions to help public sector customers get to net zero. Examples include use of IoT in social housing, and sensors giving local councils real-time data on CO₂ emissions and air pollution.

25%

of our FY22 revenue came from carbon-cutting solutions



We're encouraging consumer climate action with campaigns like the BT Big Sofa Summit, BT Sport's Green Routine and 'Not Tomorrow. Today.' Our three-month Smarter Living Challenge with Hubbub found in June 2021 that a series of over 400 tech solutions and small actions could save 1.7 tonnes of CO₂e and potentially over £900 a year in an average household.

Towards a circular BT Group and beyond

We aim to be a circular business by 2030 and part of a circular tech and telco ecosystem by 2040. Our network build activities, and initiatives like EE's phone repair service to extend handset lifecycles, are just the start.

This year, over 1.35m home hubs and set-top boxes have been collected for reuse or recycling, as well as over 170k mobile phones through the EE Trade-In scheme. We recovered or recycled 97% of our operational waste worldwide (99.4% in the UK). We're looking for more ways to reduce waste, repair, refurbish and recycle.



For our detailed environmental data, see [page 69](#).



Our Task Force on Climate-related Financial Disclosures statement can be found on [page 66](#).

^a 99.9% of the global electricity BT Group consumes is from renewable sources. The remaining 0.1% is where renewable electricity is not available in the market.

^b Building Research Establishment's Environmental Assessment Method, the world's leading sustainability assessment for infrastructure.

^c Carbon dioxide equivalent emissions.

Our stakeholders

Our internal and external stakeholders play a crucial part in our strategy of building the strongest foundations, creating standout customer experiences and leading the way to a bright, sustainable future.

Colleagues, customers, shareholders, the communities we do business in, suppliers, UK Government and regulatory bodies are all key stakeholders. We connect with them at all levels of our business. That includes frontline operations, CFUs, CUs and TUs, senior leadership, the *Executive Committee* and the Board and its committees.

We engage with them in lots of different ways – from meetings and conferences to reviews, forums and webcasts. To understand how well we're engaging with different groups, the Board and its committees get regular updates. They use them to make better decisions, and give feedback and constructive challenge on activities, programmes and initiatives being considered.



Our stakeholder management group risk category recognises just how important they are to our business. You can read more on [page 58](#).

Our Section 172 statement on [pages 82 to 83](#) gives examples of how the Board and its committees took our stakeholders' interests into account in decision-making during the year.

Colleagues

Our ambition is only as strong as our foundations, and our colleagues are absolutely central to this.

Engaging with colleagues is critical to creating a culture where they can be their best and contribute towards our purpose, ambition, strategy and long-term success.

We employ around 98,400 full-time equivalent colleagues in 43 countries. c. 79,900 are in the UK. We also engage with c. 1,600 colleagues through agencies and just over 68,400 other non-regular colleagues.

Our colleagues need us to:

- share their personal values
- give them flexible and agile ways of working
- provide brilliant training, development and career opportunities
- reward performance with fair and competitive pay and benefits.

How we engage with colleagues, and the result

The Board receives regular updates from the chief executive and HR director on our colleagues, how key people strategy initiatives are going, and culture and overall sentiment in the organisation. The pandemic – combined with our ongoing cultural change programme – meant that colleague wellbeing continued to be a priority for Board discussions this year.

Given our focus on D&I, the Board also spent time discussing this and how it influences strategy, external targets, commitments and progress.

The Board uses the *Colleague Board* as its chosen method of engagement with our workforce under the UK Corporate Governance Code 2018. As designated non-executive director for workforce engagement, Isabel Hudson is the main liaison. She has formal meetings and informal discussions with *Colleague Board* members.



Read more on the work of the *Colleague Board* in the corporate governance report on [pages 80 to 81](#).

Once a year our colleagues tell us how it feels to work here through our Your Say survey. Around 81% of them took part this year, with the results going to our *Executive Committee* members and senior leadership.

We got a clear picture of how our colleagues were feeling and a good understanding of what more we can do to make BT Group a brilliant place to work. We included questions on the pandemic. 87% felt we were managing the response

to it well and 90% said we cared about their personal safety.

We're continually reviewing and improving our approach. So this year we also conducted a mid-year pulse survey which went to a quarter of the business.

Our People Networks are colleague-led groups that share thoughts, opinions and opportunities with our leadership team to help make BT Group truly diverse and inclusive. They're supported by an executive sponsor who champions their purpose and work and provide counsel to the network chairs and deputy chairs.

As well as listening directly to colleagues, we also hear concerns through more formal engagement channels. In 2021 we renewed our employee relations framework with the CWU. We also established a partnership agreement with Prospect on how we'll work together with recognised trade unions on modernising BT over the coming years. We also continue to formally engage our European Consultative Council and EE employee representatives in the UK.

When we act on colleague feedback, we try to pick things with the biggest impact. Longer term, we inform and shape our strategy based on creating a culture where colleagues can be their best. We focus particularly on skills development, diversity and inclusion, and health, safety and wellbeing.



You can read more about activities during the year on [pages 24 to 25](#).

The *Remuneration Committee*, on behalf of the Board, reviewed the pay, conditions and HR policies across the wider workforce during the year, considering market conditions and the financial impacts of the Covid-19 pandemic. Further to the committee's consideration, we have subsequently committed to paying UK colleagues at least the Real Living Wage and recently increased our minimum salary across the board to reflect that.

Customers

We want to give customers standout experiences by delivering brilliant service, solutions and outcomes.

We have a big and broad customer base. Consumers, small and large businesses, multinationals, the public sector and CPs all want different things. Engaging with them to understand their current and future needs is fundamental to delivering our strategy, ambition and purpose.

Our customers need us to:

- connect them to their digital worlds with reliable, high quality solutions
- give them brilliant experiences and outcomes that match their needs
- provide excellent service, whether in stores, through support teams, via call centres or digital channels
- keep them secure and protect their data
- do all of this at a price that represents brilliant value for money.

How we engage with customers and the result

We actively engage with our customers all the way from initial product development to ongoing billing and service management. It helps us make sure we're offering the right propositions in the best way to meet their ongoing needs.

Our insight centre of excellence serves all parts of the group to help us understand customers better. It provides research and analysis to give us a deeper knowledge of customer segments and their specific needs.

Across different customers and channels, we use different methodologies and data sources – like focus groups – to understand perceptions, expectations, needs and behaviours. The insights we get influence how we set strategy, design customer-driven improvements, refine solutions and pricing and develop our brands.

We invest a lot of time to understand our customers' perspectives. This year we ran sessions for our senior management team where they listened directly to customers about their experience with BT Group – focusing as much on where we got things wrong as what we did well.



We also have two panels which support our customer engagement and include representation from the Board. The Customer Inclusion Panel represents different sections of society with different needs (such as customers with physical disabilities) to help us understand and respond to the range of challenges faced by our customers. The Customer Fairness Panel focuses on ensuring we are treating different customer groups fairly. As an example, it supported our Consumer unit's launch of its social tariff – Home Essentials.

Our Global Advisory Board allows us to meet regularly with top executives from large multinational customers. Similarly, our Security Advisory Board invites senior security clients to discuss cyber security risks and challenges. This helps us understand their priorities, needs and challenges so we can design solutions that deliver the outcomes they're looking for.

Openreach makes sure all its customers get equal access to our fixed network. It does that through an industry consultation process that is straightforward and compliant – with strong governance controls. All CPs also have the opportunity to engage with Openreach confidentially during initial consultation stages.

Our CFUs monitor how they're doing on delivering for our customers. We track and review customer metrics every month, including NPS. The chief executive, *Executive Committee* and senior management teams regularly review progress on our customer experience metrics to assess and agree appropriate actions for ongoing improvements.

The chief executive, *Executive Committee* and senior leadership also regularly review and discuss complaints directly with customers. The opportunity to actively connect and understand the experiences of our customers helps us to better identify and problem-solve challenges at a high level, benefiting everyone.

Whether it is defining our strategy, approving investment decisions or creating new propositions, the impact on the end customer is always a core consideration to any decisions we make.

The Board are regularly updated on market trends and customer experiences including NPS. There are detailed discussions at the Board with the CEO of each of the CFUs, including Openreach, on how we are performing and how we can drive improvements for our customers.

The Board understands the importance of protecting consumers' interests and meeting Government and regulator expectations of a consumer fairness culture, at all levels. The *BT Compliance Committee* provides Board-level oversight of consumer fairness and discusses this at each of its meetings.



Read more about steps we've taken to ensure consumer fairness on [page 16](#).

Our stakeholders continued

Shareholders

We have both equity and debt investors.

Our equity investors comprise institutional investors, who hold the biggest volume of shares, and c. 671,000 individual shareholders.

We have a good relationship with debt investors (mainly financial institutions who invest in our publicly-traded bonds). They're crucial to making sure we have access to debt capital to finance our business.

We have an investment-grade credit rating based on the strength of our balance sheet, alongside our scale, strong market position, and integrated business profile.

Our shareholders need us to:

- deliver a return on their investment through dividends and capital growth
- perform well against our long-term strategy and outlook.

How we engage with shareholders, and the result

We communicate regularly with shareholders through our investor relations programme, the Annual Report and our quarterly financial results and trading statements, and other key shareholder documents and briefings. We have also substantially improved our website this year to improve our digital communication.

Our AGM is a chance for the Board to meet and engage with shareholders. The AGM 2021 was a hybrid event, held in line with Government pandemic restrictions at the time. Shareholders were provided with the opportunity to ask questions in advance or in the meeting itself. All resolutions put to the meeting received overwhelming support of investors.

The results of the voting at all general meetings are published on our website: bt.com/agm

We will publish the arrangements for the AGM 2022 in the Notice of meeting (see [page 119](#)).

The company secretary or her delegate communicates with individual investors, making sure we respond properly to questions about their shareholding. Our share registrar Equiniti also liaises with our shareholders in relation to any specific shareholder queries.

We manage relationships with institutional investors and debt investors through our investor relations programme. It includes one-to-one conversations, roadshows, group meetings, conferences and industry events. The chairman, senior independent director and other directors, as appropriate, also liaise with investors. During the year, the chairman (current and previous) also met investors to discuss their views on the business.

This year the directors, chief executive, chief financial officer, other executives and the investor relations team held 248 meetings with investors. Key topics included:

- BT Group's strategy and competitive position in key markets
- financial and operational performance (particularly the impact of a higher inflationary environment on the business, and medium- to long-term cash flow)
- appointment of our new chairman
- capital investment
- capital allocation policy
- prospective governmental and regulatory policy decisions
- pension fund valuation.

The Board gets regular reports on our top shareholders, movements in the share register, share price performance and how we're engaging with institutional investors and analysts. It also discusses shareholder issues with management and advisers and considers these as part of its decision-making.

Communities

We're at the heart of the communities we operate in, and help bring them together.

We need all the communities we serve to trust us. Without that, we cannot deliver our growth plans – or our purpose to connect for good.

Communities rely on us to:

- give them reliable and secure connections
- help local people and SMEs get more from the digital world
- protect the environment and help tackle issues like climate change
- do business ethically and responsibly.

How we engage with communities, and the result

We touch communities across the UK every day through customer interactions at EE/BT retail stores, home visits to set up broadband and mobile services, and through people using our products and services to connect, live, work, learn and play.

To understand what matters most to our communities, we engage with them and use the insights to inform our focus areas, targets and programmes.

This year, our Hope United campaign responded to experiences of online hate and our new Here For You website helped people get the additional support they told us they needed as a result of Covid-19. We're also using insights to find ways to build trust in new technology.

 For more details on these, see [pages 34 to 35](#).



Our Manifesto will help us accelerate growth through tech that is responsible, inclusive and sustainable – communities will benefit from this either directly or indirectly as we aim to provide solutions to societal problems.

On behalf of the Board, the *Digital Impact & Sustainability Committee* had input into the objectives of the draft Manifesto ahead of launch and continues to review our activities and performance under the three pillars of the Manifesto, in line with our commitments to being a responsible, inclusive and sustainable business.

 [Read more on the Manifesto on pages 32 to 33.](#)

Connectivity opens up opportunities in education, employment and social inclusion, and can transform access to healthcare and vital local services. So we've continued to roll out our networks faster this year and cut the cost of broadband for eligible low-income households.

Boosting digital skills through partnerships and volunteering, and working with charities, demonstrates our investment in communities and society. This year, we helped 4.6m people improve their digital skills, including thousands of small business owners and their employees.

Colleagues voted for Home-Start UK as our new UK charity partner. It tackles the digital divide affecting vulnerable people by helping families improve their digital skills, through fundraising and volunteering.

In response to the Ukraine crisis, we've made mobile and landline calls, data and texts on BT, EE and Plusnet to and from Ukrainian mobiles free. We're also sending thousands of powerbanks to people displaced by the situation, and working closely with relevant government and industry partners. Our international charity partner, UNICEF, is at the forefront of the humanitarian response – BT colleagues are donating to the children's emergency fund run by UNICEF, who distribute aid to affected children.

We have a group KPI to reach 25m people in the UK with help to improve their digital skills by the end of March 2026. We also measure reputational performance and trust to track how we're perceived across communities.

 [More on how we've supported communities and the environment this year can be found on pages 34 to 35.](#)

Suppliers

Good supplier relationships are essential for our success. They help us deliver solutions and propositions that create standout customer experiences.

We source from all over the world, with suppliers in nearly 100 countries.

Suppliers need us to:

- pay them in line with our agreed terms
- help them optimise their own supply chains
- act ethically and transparently.

How we engage with suppliers, and the result

We need to know who we're doing business with, and who's acting on our behalf. So we:

- choose suppliers based on principles that make sure we act ethically and responsibly
- undertake due diligence on suppliers before and after we sign a contract, which covers financial health, anti-bribery and corruption, and whether they meet our standards on areas such as quality management, security and data privacy
- check the things we buy are made, delivered, and disposed of in a socially and environmentally responsible way
- measure suppliers' energy use, environmental impact and labour standards, and work with them to improve these.

During the year we launched BT Sourced, a new standalone procurement company based in Dublin which has established itself as a hub for many 'Big Tech' businesses as well as technology start-ups. BT Sourced has been established to challenge the traditional ways of buying goods and services by simplifying processes and introducing new technology and partnership-based approaches to the way we work with suppliers and start-ups.

Our stakeholders continued



During the year, we also announced a partnership with GXO Logistics to outsource and transform part of BT Group's supply chain across the UK as part of a new long-term relationship. This new partnership forms part of our ongoing strategy to simplify and modernise our business, which continues to make strong progress. We will be outsourcing our core warehouse and transport capabilities, while ensuring that the group's market-leading next generation network build plans remain on track.

During the year, we have faced significant inflationary headwinds from a range of factors such as a global shortage of chipsets, rising energy prices and higher shipping costs, which we have worked with our suppliers to mitigate as much as possible.

To further strengthen our capacity to deal with such challenges, BT Sourced will also accelerate the adoption of new technology that can challenge some traditional ways of buying and encourage more collaboration.

For example, we have introduced tools that make it easier for suppliers to deal with us and that automatically engage several suppliers simultaneously. These tools are encouraging greater competition within our supplier base

which generates more opportunities, particularly for smaller suppliers, while also creating more capacity for human-to-human interaction that can focus on tackling the most important issues across our supply base.

During the year, we joined the Joint Audit Cooperation (JAC) of telecommunications operators, which conducts and share corporate social responsibility audits of suppliers. JAC aims to verify, assess and develop the implementation of corporate social responsibility across the manufacturing centres of important multinational suppliers to the information communications and technology (ICT) industry.

JAC members share resources and best practices to develop long-term CSR implementation in the ICT supply chain at an international level. This should make sure BT Group's growth is responsible, inclusive and sustainable.

We also continue to engage with suppliers on a range of proactive initiatives – for example progress towards net zero carbon emissions, including the increased uptake in renewable energy, and cutting plastic packaging and waste.

This is a key part of our digital impact and sustainability strategy, so the *Digital Impact & Sustainability Committee* regularly discuss initiatives. Feedback is used to continually enhance our approach.

During the year, the *Digital Impact & Sustainability Committee* discussed programmes and initiatives in place across the group to manage risks within our supply chain, including how we mitigate these risks and ensure that we continue to be a responsible, inclusive and sustainable business.

We are actively encouraging and helping our suppliers to meet and match our own D&I commitments. We've also taken more diversity-led steps in our dealings with suppliers, such as systematically assessing diversity when taking on new suppliers.

UK Government

We add over £24bn to the UK economy^a, supporting critical services and working with more than 1,200 public sector focused customers.

Our networks support the functioning of vital public services like welfare, tax, health, social care, police and defence, while protecting citizens' personal data. Our relationship with Government bodies supports our strategic priorities – as well as enabling us to contribute to policies and initiatives that benefit our stakeholders.

Government stakeholders need us to:

- keep investing in network infrastructure
- provide the fastest, most reliable and secure connection possible, to the widest possible range of communities
- create fairly-priced products and services, backed by brilliant customer service.

How we engage with the Government, and the result

Our networks are part of the UK's critical national infrastructure and support national security. Our priority is fulfilling our responsibilities and obligations for the country and our customers.

Our Enterprise unit delivers and looks after public sector contracts and services like the Emergency Services Network (see [page 28](#)). We've also continued to support the Government and NHS teams dealing with the Covid-19 pandemic.

Our policy and public affairs team manages our relationships with Government and other politicians.

Under the Communications Act 2003, the Government can ask us (and others) to run or restore services during disasters. The Civil Contingencies Act 2004 also says that it can impose obligations on us (and others) in emergencies, or in connection with civil contingency planning.

We keep an open dialogue with Government through our chairman, chief executive and senior leaders, as well as through consultation responses and cross-industry initiatives. Through those conversations we build support for policies that will deliver good results for the UK and our shareholders.

Our public policy work with Government covers a wide remit, from infrastructure investment to national security, from regulating online harms to trade and economic policy.

In the past year we have contributed to a range of Government initiatives – for example on wireless infrastructure strategy, supply chain diversification, data strategy, drones and AI.

We continue to make good progress in delivering against our SRN obligations (see [page 16](#)), supporting this key industry-government initiative and maintaining EE's 4G coverage leadership.

We've also provided input into consultations on key legislation including the Telecommunications (Security) Act 2021, the Product Safety and Telecommunications Infrastructure Bill and the Online Safety Bill.

The Board gets regular updates on discussions with Government through the chairman, chief executive and *Executive Committee* members, with the Board providing views and comments.

Regulators

Communications and TV services are regulated. This makes sure rules and standards are consistent in each jurisdiction, which in turn protects consumers and promotes competition.

If we don't engage effectively with our regulators, we risk unnecessary regulatory intervention that could stand in the way of us achieving our strategy.

Our main regulatory relationship is with Ofcom in the UK. The main source of Ofcom's powers and duties is the Communications Act 2003, which gives it general economic and consumer regulatory powers for the sector.

We also engage with other regulatory bodies like the Competition and Markets Authority and the Financial Conduct Authority (FCA).

Ofcom needs to:

- advance citizens' and consumers' interests, often by promoting competition
- encourage investment and innovation
- support investment in the UK's critical digital infrastructure.

How we engage with Ofcom, and the result

We have a positive and open dialogue with Ofcom through our chairman, chief executive and senior leaders.

Our conversations focus on how regulation can support Ofcom's ambition for a world class UK digital infrastructure and allow efficient investment, while keeping the market fair and competitive.

 For more details of the main regulatory topics we cover with Ofcom see [pages 16 to 17](#).

In 2017, we put in place the Commitments. It provides Openreach with a greater degree of strategic and operational independence, in line with objectives set out in Ofcom's Digital Communications Review.

In December 2021, Ofcom noted that Openreach continues to operate with a "high degree of independence from BT"^a and that there were "strong structures and processes" in place at both BT Group and Openreach which helped support compliance.

Ofcom says that BT Group and Openreach are still making good progress to safeguard Openreach's independence. We continue to engage with Ofcom and CPs to maintain their confidence that we're following both the letter and spirit of the Commitments.

On behalf of the Board, the *BT Compliance Committee* monitors our compliance with the Commitments, including our culture and behaviours of our colleagues.

Ofcom attended a *BT Compliance Committee* meeting during the year and discussed feedback on the Commitments and Ofcom's relationship with us. The Board are also regularly updated on any key meetings between Ofcom and the chairman, chief executive and others.

 You can read more on the work of the *BT Compliance Committee* in the corporate governance report on [page 96](#).

^a Based on an independently prepared study by Hatch Urban Solutions in December 2020 study. A new study is due in FY23.

^b Quoted from Ofcom's annual Openreach monitoring report, published 8 December 2021.

Non-financial information

The table below (and the sections it refers to) form our non-financial information statement – as required by sections 414CA and 414CB of the Companies Act 2006 (2006 Act).

Colleagues (See pages 24 to 25, 36, 64 and 80 to 82)		Environment (See pages 35, 45, 64, 66 to 69 and 82)	
Our policies	Our Health, Safety and Wellbeing Policy Statement promotes a safe and healthy workplace and aims to prevent work-related injuries, ill health and diseases. It supports our strategy to build the strongest foundations by integrating health, safety and wellbeing considerations into our work with colleagues, contractors and the public.  Our Health, Safety and Wellbeing Policy Statement can be found at bt.com/ourpolicies	Our Diversity and Inclusion Strategy sets out a programmatic, evidence-based approach to understanding and removing bias and other cognitive barriers from our policies, processes, systems and decision-making. It supports our aim to build the strongest foundations by making sure we apply an inclusion lens to everything we do and promoting a culture where colleagues can thrive.  Our Diversity and Inclusion Strategy can be found at bt.com/diversity-and-inclusion	Our Environmental Policy sets out guiding principles that will get us to net zero carbon emissions by the end of March 2031 for our operations, and by the end of March 2041 for our customers and supply chain. It supports our strategy by explaining how we'll realise our ambition to create a more sustainable future for ourselves and our customers by cutting our environmental impact, and helping customers and suppliers cut theirs. The policy describes how we engage with stakeholders on environmental issues and monitor and report on progress. The Manifesto also reinforces our net zero commitments.  Our Environmental Policy can be found at bt.com/ourpolicies
	We put resources behind building a safe and healthy workplace. That includes policies, training, processes and effective risk controls. We monitor safety and wellbeing with a 'three lines of defence' model. We track and review accidents, near misses and reasons for sickness absence. We look at why accidents, injuries and near misses happen, to stop them happening again. We track sickness absence trends, adapting processes to better support colleagues. We review policies annually and update them when needed. The <i>Executive Committee</i> and the Board are regularly updated on health, safety and wellbeing matters.	We have established an effective governance process to make sure we consistently integrate D&I into key decisions and policy development. We regularly report to the <i>Executive Committee</i> on the progress we are making to achieve our diversity targets and whether our strategy is still effective and relevant. The Board is also updated on progress. All of our People Networks that champion the concerns and priorities of their members are sponsored by the members of the <i>Executive Committee</i> or the CEO, Openreach. Our <i>Colleague Board</i> helps shape and influence our D&I plans. Read more about the <i>Colleague Board</i> on pages 80 to 81, and other ways we engage with colleagues on page 36.	We monitor and manage our environment strategy and risks through the <i>Digital Impact & Sustainability Committee</i>. We also do it through our Group Environment Board, which reports to the <i>Executive Committee</i>. We measure progress on different environment goals, one of which is a group KPI (page 45). We review and update the policy every year.
	There are details of what we've done to apply our policy, along with sickness absence rates and time lost from injuries, on pages 24 to 25.	Our strategy creates an environment and workplace that embraces D&I and incorporates it into our decision-making. There are details of the things we've done this year to support our strategy, together with our latest D&I statistics, on pages 24 to 25.	Read more about our plans and performance on the environment and tackling climate change, including progress on becoming a net zero carbon emissions business, on page 35. There are also details of our performance against our group KPI target to cut the carbon emissions intensity of our operations by 87% by the end of March 2031 on page 45.
	We track health, safety and wellbeing risks in its corresponding group risk category, on page 64.	We reflect D&I risks in our people group risk category, on page 63.	We consider the impacts of climate-related risks across our whole business – for example in stakeholder management, supply management and service interruption group risk categories on pages 62 and 65. We're acting to mitigate key physical climate risks and our impact on the environment in a number of areas. Read more on page 35 and in our Task Force on Climate-related Financial Disclosures statement on pages 66 to 69.

Social and community

(See pages 32 to 35, 38 to 39, 45 and 82)

Our **Manifesto** is rooted in our purpose, 'we connect for good', and backed up by commitments under the themes of Responsible, Inclusive and Sustainable.

It recognises that we will only succeed if we help to solve some of the problems faced by the societies and customers we serve.

Wider society will benefit from us delivering on our Manifesto, in particular on our commitment to help give people the skills they need to succeed in a digital world.

The **BT Group charity approach** sets out how we work with our key charity partners and how we support our colleagues' volunteer work.

Our Manifesto can be found at bt.com/btmanifesto, and you can read more about it on pages 32 to 33

The BT Group charity approach can be found at bt.com/ourpolicies

Human rights

(See page 34)

Our **Human Rights Policy Commitment** explains our commitment to respect and champion human rights across BT Group and in our relationships with others. It describes our approach to respecting rights and freedoms, especially in the digital world. And it's supported by our responsible tech principles.

Being a human rights leader and having strong ethical standards builds trust. This is key to us achieving our ambition to be the world's most trusted connector of people, devices and machines.

The Manifesto also reinforces our responsible tech principles and BT Group's respect for human rights.

Our Human Rights Policy Commitment can be found at bt.com/ourpolicies

Our Modern Slavery Statement can be found at bt.com/modernslavery

Anti-bribery and corruption

Being trusted: our code sets out our promises which include our zero-tolerance approach to bribery and corruption. It's supported by a specific **Anti-Bribery and Corruption (ABC) Standard**.

Our code describes our values and behaviours, how we expect everyone who works for us (or on our behalf) to do business. It also covers extra policy areas like human rights, and equality and diversity. And it provides an ethical framework for our ambition to become the world's most trusted connector of people, devices and machines.

It demonstrates, through our commitment to doing the right thing, how our stakeholders can depend on us.

Being trusted: our code can be found at bt.com/ethics

Our Anti-Bribery and Corruption Standard can be found at bt.com/ourpolicies

The *Digital Impact & Sustainability Committee*:

- oversees our Manifesto commitments and progress
- reviews our strategy and progress on societal programmes and targets
- monitors progress against the group KPI of reaching 25m people with help to improve their digital skills by the end of March 2026.

Read more about the committee's role on page 97.

We have processes to identify and address potential and actual human rights impacts across our business.

They include checks to make sure we apply our responsible tech principles when we develop, buy, sell and use tech.

Our responsible tech steering group oversees implementing the principles. It reports to the *Executive Committee*.

Respecting people's rights is covered in mandatory annual training. We also provide targeted training for teams most likely to encounter human rights issues.

We identify, measure and tackle human rights impacts in our operations and supply chain through the Speak Up whistleblowing service, and through risk assessment surveys and on-site audits.

All our colleagues are required to do mandatory training on our code. We also publish communications that reinforce policies.

Our annual Your Say employee engagement survey includes questions on ethical perception, with results shared with senior management.

Our Speak Up whistleblowing service lets anyone who works for (or with) us to confidentially report anything that goes against our code – including bribery, corruption, human rights violations, bullying or harassment.

We undertake due diligence on third parties, engage external providers to assess higher risk areas, and use an integrity risk dashboard to identify potential focus areas.

We report on how we invest in communities on pages 38 to 39. Read more about our Manifesto and what we've achieved this year on pages 32 to 35, including our progress on helping people improve their digital skills (a group KPI).

Following a self-assessment last year, we're now being externally assessed against the Global Network Initiative principles. We've enhanced our sales due diligence process and expanded the scope.

We report on implementing our responsible tech principles on page 34.

This year, 96% of our colleagues completed training on our code. We also introduced a new system to better manage our ABC high risk third parties and completed a bottom-up ABC risk assessment.

Our Speak Up whistleblowing service received 517 reports this year. You can find more details on these in our Modern Slavery Statement at bt.com/modernslavery.

We consider digital inclusion risks as part of our stakeholder management group risk category on page 58.

We consider human rights risk as part of our stakeholder management group risk category on page 58.

We consider ABC and ethical conduct risks within the legal compliance group risk category where risks apply across our operations generally. See page 61.

Our key performance indicators (KPIs)

We delivered robust operational performance in FY22. Financial performance was broadly in line with guidance^a.

We use eleven KPIs – five operational and six financial.

We reconcile the financial measures to the closest IFRS measure on [pages 209 to 211](#).

Operational At 31 March

R The annual bonus and long-term incentive plans that comprise our directors' remuneration are linked to certain KPIs. See the [Report on directors' remuneration on page 102](#).

a We gave our original financial outlook in May 2021 and subsequently adjusted our revenue outlook in February 2022. You can read more on [page 46](#).

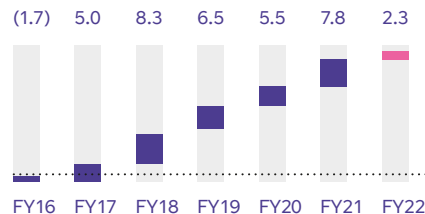
b Adjusted EBITDA as stated is before specific items, share of post tax profits/losses of associates and joint ventures and net non-interest related finance expense, as explained on [page 210](#).

c Adjusted measures exclude specific items, as explained on [page 209](#).

d Normalised free cash flow as defined on [page 211](#).

e The number of EE consumer customers receiving or capable of receiving a 5G network connection using one or both of a 5G-enabled handset and a 5G-enabled SIM.

BT Group Net Promoter Score (NPS) pp improvement



Definition

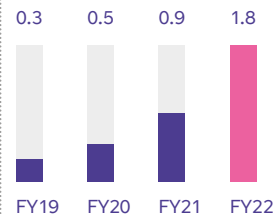
This tracks changes in our customers' perceptions of BT Group since we launched the measure in April 2016. It's a combined measure of 'promoters' minus 'detractors' across our business units. BT Group NPS measures the net promoter score in our retail business and net satisfaction in our wholesale business.

Link to strategy

Performance

BT Group NPS increased by 2.3 percentage points (FY21: up 7.8 percentage points), a new all-time high supported by strong results in year for Consumer, BT SME and Global. You can read more about these and our approach to customer experience on [page 27](#).

Total Openreach FTTP connections m



Definition

This tracks how many premises are connected to Openreach's full fibre (FTTP) network.

Link to strategy

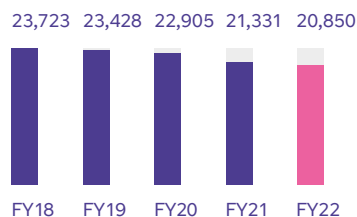
Performance

Almost 1.8m customers were connected to Openreach's FTTP network at 31 March 2022 (FY21: 0.9m). Openreach's full fibre footprint reaches more than 7m homes and businesses – more than our competitors combined – and we're on track to get to 25m premises by the end of 2026. You can read more about the full fibre rollout on [page 21](#).

Financial Year ended 31 March

Reported revenue

£m



Definition

This is our revenue as reported in our income statement.

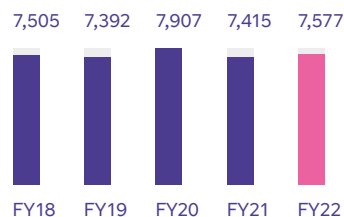
Link to strategy

Performance

Reported revenue was £20,850m (FY21: £21,331m). The decrease was primarily due to revenue declines in our Enterprise and Global units offset by growth in Openreach, with revenue in Consumer flat. You can read more about CFU performance on [pages 52 to 53](#).

Adjusted^b EBITDA

£m



Definition

This measures our earnings before interest, tax, depreciation and amortisation, specific items, share of post tax profits/losses of associates and joint ventures and net non-interest related finance expenses.

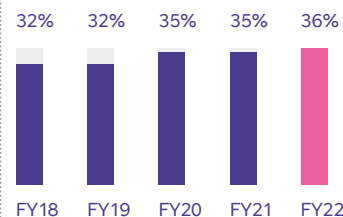
Link to strategy

Performance

Adjusted^b EBITDA was £7,577m (FY21: £7,415m). Growth was driven by savings from our modernisation programmes, tight cost management and lower indirect commissions, which more than offset revenue decline. You can read more on [page 48](#). Lease payments are not included in adjusted^b EBITDA following adoption of IFRS 16 Leases in FY20.

Adjusted^b EBITDA margin

%



Definition

This measures our margin, calculated using our adjusted^b EBITDA and adjusted^c revenue.

Link to strategy

Performance

Adjusted^b EBITDA margin improved 1pp to 36% (FY21: 35%). The increase is mainly driven by improved adjusted^b EBITDA which more than offset the impact of the decline in revenue. You can read more on [page 48](#). Adjusted^b EBITDA margin from FY20 is benefited by the adoption of IFRS 16.

Link to strategy

Each KPI measures how we're doing against at least one of our strategic pillars. You can read more about these, and our progress against them, from [page 18](#).



Build the strongest foundations



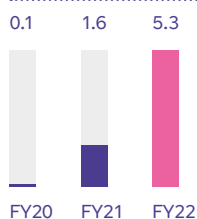
Create standout customer experiences



Lead the way to a bright, sustainable future

Total 5G connections

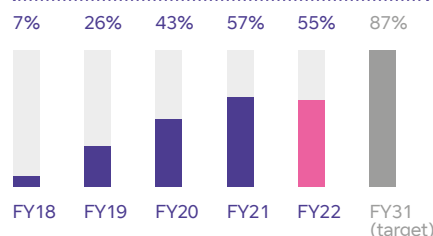
m

**Definition**

This measures the number of EE customers connected to our 5G products.

Link to strategy**Performance**

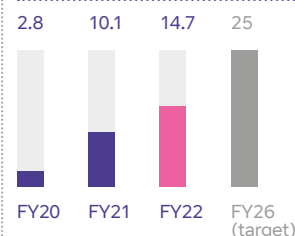
Our 5G customer base keeps growing, with 5.3m EE customers able to connect to our 5G network at 31 March 2022 (FY21: 1.6m). We now have 7.2m 5G ready* customers. We continue to expand our 5G network which now covers over half of the UK population. You can read more on our 5G coverage and rollout on [page 21](#).

Percentage reduction in carbon emissions intensity % reduction**Definition**

This measures performance against our target to cut carbon emissions intensity by 87% by the end of March 2031 compared to FY17 levels. It's measured by reference to tonnes of CO₂e (carbon dioxide equivalent) per £m value added (adjusted EBITDA^b plus employee costs).

Link to strategy**Performance**

Against our carbon emission intensity reduction target this year we achieved a 55% reduction from our baseline year (FY17). This was down slightly on last year's result of 57%, as a result of the rebound effect from the pandemic and due to an increase in vehicle emissions to support fibre rollout. You can find more information on what we're doing to tackle environmental challenges and our journey to net zero emissions on [page 35](#).

Cumulative number of people reached to help improve their digital skills m**Definition**

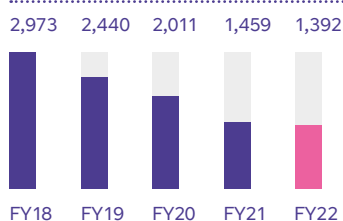
This measures the number of people we've reached with help to improve their digital skills.

Link to strategy**Performance**

At 31 March 2022 we had helped 14.7m people improve their digital skills (FY21: 10.1m) and we're on track to reach our target of 25m by the end of March 2026. You can read more about what we're doing to achieve this on [page 34](#).

Normalised free cash flow^d

£m

**Definition**

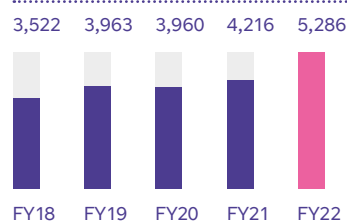
This measures free cash flow (net cash inflow from operating activities after capital expenditure) after net interest paid and payment of lease liabilities, before pension deficit payments (including the cash tax benefit of pension deficit payments) and specific items.

Link to strategy**Performance**

We generated £1,392m of normalised free cash flow^d. This was down 5% from last year and mainly reflects higher cash capital expenditure, partially offset by higher adjusted^b EBITDA and lower tax and lease payments.

Reported capital expenditure

£m

**Definition**

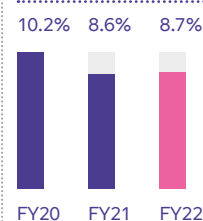
This measures additions to property, plant and equipment and intangible assets during the year.

Link to strategy**Performance**

Reported capital expenditure was £5,286m (FY21: £4,216m). This was primarily driven by investment in spectrum of £479m, and increased full fibre and mobile network investment.

Return On Capital Employed (ROCE)

%

**Definition**

ROCE is adjusted earnings before interest and tax as a percentage of equity, debt and debt-like liabilities excluding balances associated with tax and management of financial risk. For a full definition and a reconciliation to the nearest IFRS measure see [page 210](#).

Link to strategy**Performance**

ROCE for the year was 8.7% (FY21: 8.6%). The increase was mainly attributable to a higher return for the period driven by increased operating profit, partly offset by an increase in capital employed attributable to our continued investment in full fibre.

Group performance

Introduction from our Chief Financial Officer



Alternative performance measures

We assess the performance of the group using various alternative performance measures. As these are not defined under IFRS they are termed 'non-GAAP' or 'alternative performance' measures. We reconcile these to the nearest prepared measure in line with IFRS on **pages 209 to 211**. The alternative performance measures we use may not be directly comparable with similarly-titled measures used by other companies.

a Adjusted EBITDA is stated before specific items, share of post tax profits/losses of associates and joint ventures and net non-interest related finance expense, as explained on **page 210**.

b Adjusted measures exclude specific items, as explained on **page 209**.

c Additions to property, plant and equipment and intangible assets in the period, excluding spectrum.

d Normalised free cash flow as defined on **page 211**.

e Financial outlook originally provided in May 2021 was updated in February 2022 to reduce the adjusted revenue outlook from broadly flat to down c.2% as a result of the ongoing impact of Covid-19 and supply chain issues.

f Loans and other borrowings and lease liabilities (both current and non-current), less current asset investments and cash and cash equivalents, including items which have been classified as held for sale on the balance sheet. Currency denominated balances within net debt are translated to sterling at swapped rates where hedged. Fair value adjustments and accrued interest applied to reflect the effective interest method are removed. Please refer to note 26 of the consolidated financial statements for reconciliation from nearest IFRS measure.

Performance

Overall our results for the year were in line with our guidance.

Reported revenue was £20,850m, down 2% and adjusted^b revenue was £20,845m, down 2%. Revenue has grown in Openreach, was flat in Consumer, but declined in Enterprise and Global as a result of challenging market conditions.

Adjusted^a EBITDA of £7,577m was up 2%, with revenue decline more than offset by lower costs from our modernisation programmes, tight cost management, and lower indirect commissions.

Reported profit before tax was £1,963m, up 9% with higher adjusted^a EBITDA offsetting higher finance expenses.

Capital expenditure^c of £4,807m was up 14% primarily due to continued higher spend on our fibre infrastructure and mobile networks.

Normalised free cash flow^d was £1,392m, down 5% primarily due to higher cash capital expenditure, partially offset by higher adjusted^a EBITDA and lower tax payments.

Financial outlook

We face a challenging external environment. However, we currently have index linked pricing across around two-thirds of our revenue before eliminations, primarily in Consumer and Openreach, which will help to mitigate the impact of inflationary cost pressures in labour, energy and the supply chain in FY23.

We continue to expect to deliver growth in revenue and at least £7.9bn adjusted^a EBITDA in FY23, with stronger Consumer and Openreach financials offsetting challenges in our enterprise businesses.

As we have said previously, capital expenditure^c in FY23 will remain at its peak level of around £4.8bn before spectrum costs.

Normalised free cash flow^d is expected to be £1.3bn to £1.5bn.

FY23 outlook

Change in adjusted ^b revenue	Growth
Adjusted ^a EBITDA	At least £7.9bn
Capital expenditure ^c	Around £4.8bn
Normalised free cash flow ^d	£1.3bn – £1.5bn

Following completion of our sports joint venture with Warner Bros. Discovery, expected by the end of 2022, we expect group revenues to reduce by £0.5bn – £0.6bn per annum relative to FY22. We do not expect a material impact on our FY23 adjusted^a EBITDA outlook. We will confirm the full impact on all our outlook metrics following completion.

Excluding the impact of the above joint venture, on a like-for-like basis we expect sustainable revenue and adjusted^a EBITDA growth beyond FY23.

As mentioned on **page 23** we have now extended our gross annualised cost savings target to £2.5bn by FY25, within the expected cost to achieve of £1.3bn.

We remain confident in the delivery of long-term normalised free cash flow^d growth. By the end of the decade we expect an expansion of at least £1.5bn in normalised free cash flow^d compared to FY22, solely from lower capital expenditure and operating costs as we move towards an all-fibre, all-IP network. In addition, the move to FTTP will enable us to recover copper from our legacy network. Initial estimates indicate that around 200k tonnes of copper could be recovered from our network through the 2030s. We are currently undertaking trials to better understand the costs associated with recovering this valuable asset. These benefits are structural upsides as the business changes, on top of the free cash flow arising from organic growth in revenue and the benefit of further transformation efficiencies, including the additional cost savings target, net of tax.

Dividend

We have declared a final dividend for FY22 of 5.39 pence per share, bringing the full year FY22 total, as promised, to 7.70 pence per share, and our intention is to continue with a progressive dividend policy. Our progressive dividend policy is to maintain or grow the dividend each year whilst taking into consideration a number of factors including underlying medium-term earnings expectations and levels of business reinvestment.

The Board expects to continue with this policy for future years, and to declare two dividends per year with the interim dividend being fixed at 30% of the prior year's full year dividend.

Simon Lowth

Chief Financial Officer
11 May 2022

	Financial outlook ^a	Result	Performance in line with or better than financial outlook
Change in adjusted ^b revenue	Down c.(2)%	Down (2)%	✓
Adjusted ^a EBITDA	£7.5bn – £7.7bn	£7.6bn	✓
Capital expenditure ^c	c.£4.9bn	£4.8bn	✓
Normalised free cash flow ^d	£1.1bn – £1.3bn	£1.4bn	✓

Revenue

£m

£20,850m (2)%

21,331 20,850



FY21 FY22

Adjusted^a EBITDA

£m

£7,577m 2%

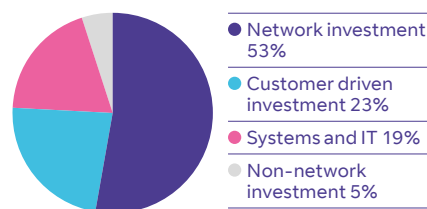
7,415 7,577



FY21 FY22

FY22 Capital expenditure^c

£4,807m

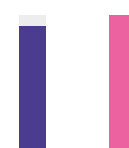


Profit before tax

£m

£1,963m 9%

1,804 1,963



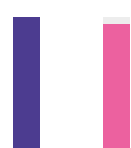
FY21 FY22

Normalised free cash flow^d

£m

£1,392m (5)%

1,459 1,392



FY21 FY22

Net debt^f

£m

£18,009m £207m

17,802 18,009



FY21 FY22

Operating cash flow

£m

£5,910m (1)%

5,963 5,910

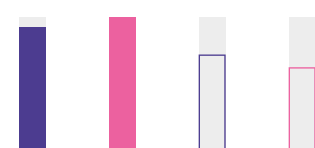


FY21 FY22

Earnings per share

pence

18.9 20.3 14.8 12.9



FY21 FY22 FY21 FY22

Adjusted^b EPS

Reported EPS

Group performance continued

Summarised income statement

Year ended 31 March	2022 £m	2021 £m
Revenue	20,850	21,331
Operating costs ^a	(13,560)	(14,397)
Depreciation and amortisation	(4,405)	(4,347)
Operating profit	2,885	2,587
Net finance expense	(922)	(791)
Share of post tax profit/(loss) of associates and ventures	–	8
Profit before tax	1,963	1,804
Tax	(689)	(332)
Profit for the period	1,274	1,472

Revenue

Reported revenue was down 2%, primarily due to declines in legacy products, tougher trading in our Enterprise and Global divisions, handset to SIM migration in Consumer, the impact of prior year divestments and foreign exchange. This was partially offset by higher rental bases in fibre-enabled products, relationship-driven equipment sales in Global and stronger recurring BT Sport revenue as a result of the prior year Covid-19 induced cancellations.

You can find details of revenue by CFU on [pages 52 and 53](#). Note 5 to the consolidated financial statements shows a full breakdown of revenue by all our major product and service categories.

Operating costs

Reported operating costs were down 4%, primarily due to savings from our modernisation programmes, tight cost control and lower indirect commissions.

In May 2020 we announced the next phase of our transformation focused on simplifying our product portfolio, simplifying and automating our customer journeys, moving to a modern, modular IT architecture, and migrating customers from our legacy networks to our modern FTTP and 5G networks.

During FY22 we delivered gross annualised savings of £0.7bn with a cost to achieve of £0.3bn, bringing total gross annualised savings over the past two years to £1.5bn with a cost to achieve of £0.8bn. You can read more about how we're transforming our cost base and our new savings targets on [page 23](#).

Note 6 to the consolidated financial statements shows a detailed breakdown of our operating costs.

Adjusted^c EBITDA

Adjusted^c EBITDA of £7,577m increased by 2% with the reduced operating costs more than offsetting revenue decline.

You can find details of adjusted^c EBITDA by CFU on [pages 52 and 53](#).

Profit before tax

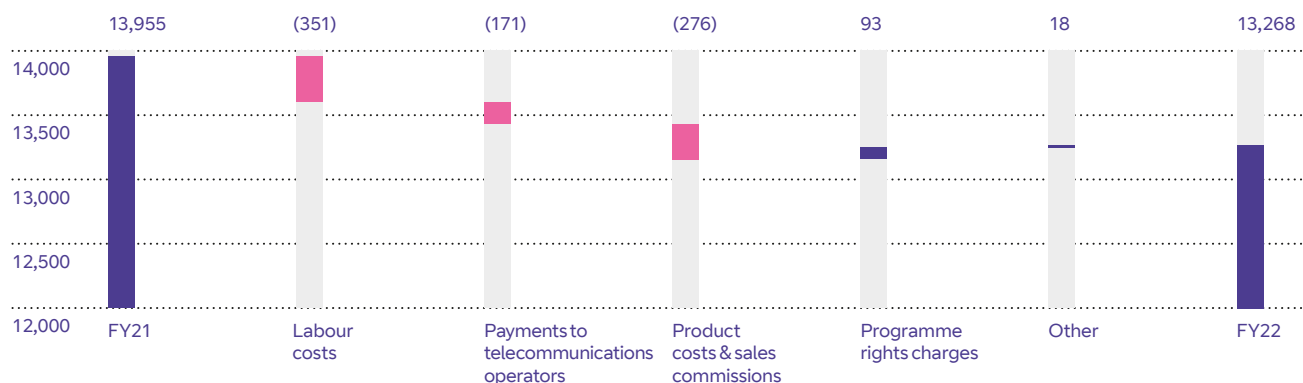
Reported profit before tax of £1,963m was up 9%, reflecting increased adjusted^c EBITDA and despite increased finance expense from pension deficit movements.

Specific items

As we explain on [page 209](#), we separately identify and disclose those items that in management's judgement need to be disclosed by virtue of their size, nature or incidence. We call these specific items. Specific items are used to derive the adjusted results as presented in the consolidated income statement. Adjusted results are consistent with the way that financial performance is measured by management and assists in providing an additional analysis of the reported trading results of the group.

Adjusted^b operating costs before depreciation, amortisation and specific items

Year ended 31 March
£m



Specific items resulted in a net charge after tax of £728m (FY21: £403m). The main components were a net tax charge on remeasurement of deferred tax of £420m (FY21: £nil) and restructuring charges of £347m (FY21: £421m). Note 9 to the consolidated financial statements shows the full details of all revenues and costs that we have treated as specific items.

Taxation

Our effective tax rate was 35.1% (FY21: 18.4%) on reported profit which mainly reflects the remeasurement of our deferred tax balances following the enactment of the new UK corporation tax rate of 25% from April 2023. The corresponding adjustment comprises a net tax charge of £420m in the income statement and a non-recurring tax credit of £298m in the statement of comprehensive income.

The effective tax rate on adjusted^b profit was 14.8%. This is lower than FY21 (18.6%) as we expect a large proportion of our capital spend on fibre rollout to be eligible for the Government's super-deduction regime, which allows for enhanced tax relief on qualifying capital expenditure. The super-deduction regime is available for FY22 and FY23, driving a projected UK tax loss for these periods, with around £5bn of tax losses expected to be carried forward from FY23. A net UK deferred tax charge has been recorded, reflecting the deferred tax liability arising on qualifying capital expenditure, offset in part by a deferred tax asset on the current period tax loss.

We paid income taxes globally of £52m (FY21: £288m). We paid UK corporation tax of £nil, benefiting from the super-deduction noted above (FY21: £229m). We benefited £nil from tax deductions on employees' pension and share schemes (FY21: £181m).

Our tax expense recognised in the income statement before specific items was £349m (FY21: £428m). We also recognised a £430m tax charge (FY21: £1,051m tax credit) in the statement of comprehensive income, mainly relating to our pension scheme.

We expect our sustainable income statement effective tax rate before specific items to be around the UK rate of corporation tax, as we do most of our business in the UK.

Note 10 to the consolidated financial statements shows further details of our tax expense, along with our key tax risks.

Earnings per share

Reported earnings per share was 12.9p, down 1.9p, while adjusted^b earnings per share increased 1.4p to 20.3p.

Capital expenditure

Capital expenditure was £5,286m (FY21: £4,216m). The increase was primarily due to investment in spectrum of £479m, along with increased investment in our full fibre and mobile network. Capital expenditure excluding spectrum was £4,807m.

Capital expenditure contracted but not yet spent was £1,596m at 31 March 2022 (FY21: £1,370m).

Cash flow

Net cash inflow from operating activities was down 1% to £5,910m, mainly as a result of working capital movements.

Normalised free cash flow^d was down 5% to £1,392m due to higher cash capital expenditure partially offset by higher adjusted EBITDA^c and lower tax and lease payments.

You can see a reconciliation to normalised free cash flow^d from net cash inflow from operating activities (the most directly comparable IFRS measure) on [page 211](#).

The net cash cost of specific items adjusted from normalised free cash flow^d was £610m (FY21: £390m), primarily relating to restructuring payments of £370m (FY21: £428m) and the Dixons Carphone settlement (refer to note 9 of the consolidated financial statements for more details). In addition, net cash proceeds from divestments were £76m (FY21: £164m).

a Excluding depreciation and amortisation.

b Adjusted measures exclude specific items, as explained on [page 209](#).

c Adjusted EBITDA is stated before specific items, share of post tax profits/losses of associates and joint ventures and net non-interest related finance expense, as explained on [page 210](#).

d Normalised free cash flow as defined on [page 211](#).

Group performance continued

Summarised balance sheet

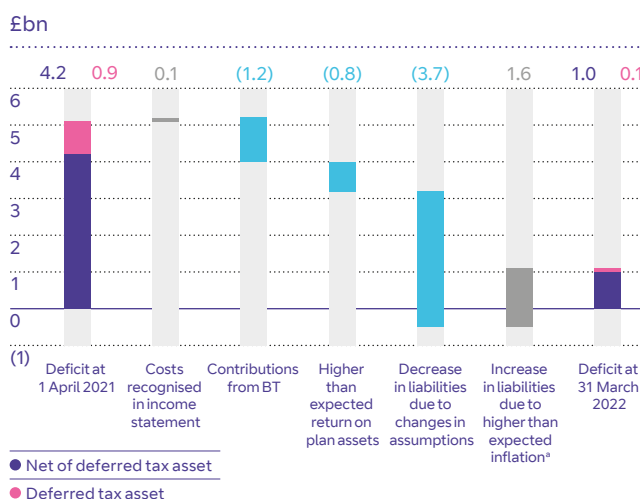
Year ended 31 March	2022 £m	2021 £m
Intangible assets	13,809	13,357
Property, plant and equipment	20,599	19,397
Right-of-use assets	4,429	4,863
Derivative financial instruments	1,091	1,235
Cash and cash equivalents	777	1,000
Investments	2,713	3,683
Trade and other receivables	2,961	3,571
Contract assets	1,915	1,859
Deferred tax assets	289	989
Other current and non-current assets	1,191	923
Total assets	49,774	50,877
Loans and other borrowings	16,185	16,685
Derivative financial instruments	870	1,283
Trade and other payables	6,766	6,662
Contract liabilities	1,003	1,092
Lease liabilities	5,760	6,152
Provisions	661	715
Retirement benefit obligations	1,143	5,096
Deferred tax liabilities	1,960	1,429
Other current and non-current liabilities	130	84
Total liabilities	34,478	39,198
Total equity	15,296	11,679

Pensions

The IAS 19 gross deficit has decreased from £5.1bn at 31 March 2021 to £1.1bn at 31 March 2022. Net of deferred tax, the deficit has decreased from £4.2bn to £1.0bn.

The decrease in the gross deficit of £4.0bn since 31 March 2021 mainly reflects an increase in the real discount rate, £1.1bn of deficit contributions paid over the period, lower assumed future life expectancies due to an allowance for the impact of the Covid-19 pandemic and positive asset returns. This has been partially offset by higher inflation over the year than assumed at 31 March 2021.

The movements in the deficit for the group's defined benefit plans are shown below:



Note 20 to the consolidated financial statements gives more information on our pension arrangements.

Net debt^b and net financial debt

Net financial debt (which excludes lease liabilities) at 31 March 2022 was £12.2bn, £0.6bn higher than at 31 March 2021 (£11.7bn), with net capital expenditure (after spectrum refund), pension contributions, net interest payments, payments of lease liabilities and share purchases more than offsetting net cash inflow from operating activities.

Net debt^b (which includes lease liabilities) was £18.0bn at 31 March 2022, £0.2bn higher than at 31 March 2021 (£17.8bn). The difference to the movement in net financial debt reflects lease movements.

At 31 March 2022 the group held cash and current investment balances of £3.5bn. The current portion of loans and other borrowings is £0.9bn; we have no term debt repayable during FY23. Our £2.1bn facility, which matures in March 2027, remains undrawn at 31 March 2022.

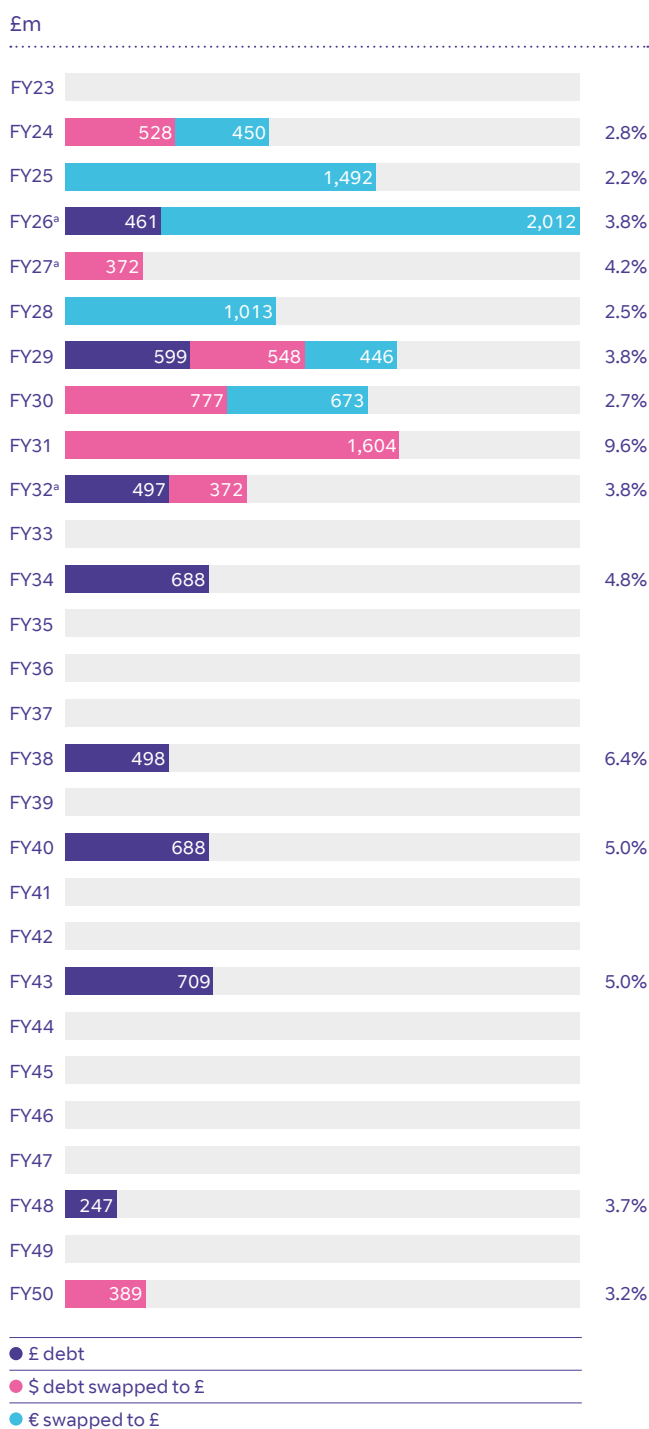
Gross debt translated at swap rates and excluding accrued interest and fair value adjustments was £21.5bn at 31 March 2022. This comprises term debt of £15.1bn, lease liabilities of £5.8bn and other loans of £0.6bn.

^a There has been a broadly equivalent benefit to inflation-linked assets from higher inflation.

^b Loans and other borrowings and lease liabilities (both current and non-current), less current asset investments and cash and cash equivalents, including items which have been classified as held for sale on the balance sheet. Currency denominated balances within net debt are translated to sterling at swapped rates where hedged. Fair value adjustments and accrued interest applied to reflect the effective interest method are removed. Please refer to note 26 of the consolidated financial statements for reconciliation to the nearest IFRS measure.

Debt maturity

The graph below shows the maturity profile of our term debt. Currency denominated balances are translated to sterling at swapped rates where hedged:



Note 26 to the consolidated financial statements gives more information on our debt arrangements.

Contractual obligations and commitments

The table below shows our principal undiscounted contractual financial obligations and commitments at 31 March 2022.

As at 31 March 2022	Total £m	Less than 1 year £m	Between 1 and 3 years £m	Between 3 and 5 years £m	More than 5 years £m
Loans and other borrowings ^b	15,700	640	2,469	2,844	9,747
Pension deficit obligations	7,688	994	1,572	1,562	3,560
Lease liabilities	6,499	788	1,513	1,215	2,983
Programme rights commitments	997	498	496	3	–
Capital commitments	1,596	1,430	163	2	1
Other commitments	295	295	–	–	–
Total	32,775	4,645	6,213	5,626	16,291

We have unused committed borrowing facilities totalling £2.1bn. We expect that these resources, combined with the future cash we generate, will allow us to settle our obligations as they fall due.

Notes 15, 20, 26 and 31 to the consolidated financial statements give further information on these items.

Share buyback

We spent £184m (FY21: £14m) on our share buyback programme. We received proceeds of £13m (FY21: £1m) from colleagues exercising their share options.

a Reflects exercise of call options attached to bonds maturing between 2080 and 2081. See note 26 to the consolidated financial statements for more details.

b Principal repayments at hedged rates.

Group performance continued

Our customer-facing units

Consumer

Year ended 31 March	2022 £m	2021 £m	Change £m	Change %
Adjusted ^a revenue	9,858	9,885	(27)	–
Adjusted ^a operating costs	7,596	7,757	(161)	(2)
Adjusted^b EBITDA	2,262	2,128	134	6
Depreciation & amortisation	1,421	1,281	140	11
Adjusted^a operating profit	841	847	(6)	(1)
Capital expenditure	1,198	1,082	116	11
Normalised free cash flow ^c	917	714	203	28

Adjusted^a revenue**£9,858m****–%**Adjusted^a operating profit**£841m****(1)%**

Revenue^a was broadly flat. Broadband base growth and year on year improved sport revenue following the cancellation of sporting fixtures last year due to Covid-19 was offset by the ongoing decline of our legacy BT voice product and lower postpaid mobile revenue as a consequence of reduced market activity and continued handset to SIM-only migration.

The year showed strong EBITDA^b growth reflecting our direct channel focus with lower indirect commissions and tight cost management. Our overall growth in the year more than offset the benefit of sports rights rebates in the prior year.

Depreciation and amortisation was up driven by higher mobile network and customer equipment investment.

Capital expenditure was up due to higher mobile network, equipment and digital investment.

Normalised free cash flow^c was up, driven by lower mobile handset spend, reduced sports rights payments in the current year and higher EBITDA^b, partly offset by higher capital expenditure.

We achieved our highest ever NPS results for both BT and EE consumer brands. This strong customer focus has resulted in churn staying near record lows across fixed, broadband and mobile.

Our revenue growth in the fourth quarter of the year, growing FTTP and 5G bases, award-winning mobile network, low churn, index linked contracts, strong brand NPS and continued converged growth, provide us with strong foundations heading into FY23.

Enterprise

Year ended 31 March	2022 £m	2021 £m	Change £m	Change %
Adjusted ^a revenue	5,157	5,449	(292)	(5)
Adjusted ^a operating costs	3,521	3,745	(224)	(6)
Adjusted^b EBITDA	1,636	1,704	(68)	(4)
Depreciation & amortisation	724	740	(16)	(2)
Adjusted^a operating profit	912	964	(52)	(5)
Capital expenditure	569	492	77	16
Normalised free cash flow ^c	791	1,352	(561)	(41)

Adjusted^a revenue**£5,157m****(5)%**Adjusted^a operating profit**£912m****(5)%**

Revenue^a decline was driven by legacy contract exits, declines in legacy products and the ongoing migration of an MVNO customer. There will be no further revenue from this MVNO contract in FY23. This was partially offset by upfront and one-off revenues from new contracts as well as continued growth across VOIP and Retail mobile revenues.

EBITDA^b was down 4%, reflecting the revenue decline, partially offset by tight cost control and the benefits of our modernisation programme. Depreciation and amortisation was down 2% for the year.

Capital expenditure increased due to increased investment in product development as well as in our modernisation programme.

Normalised free cash flow^c has declined, reflecting the increase in capital expenditure as well as reduced EBITDA^b, adverse working capital and the prior year benefit from the monetisation of a non-strategic revenue stream.

Retail order intake increased 3% to £2.7bn despite challenging market conditions. Wholesale order intake increased 15% to £1.0bn, including a significant multi-data centre deal with BAI Communications to support their contract to deliver connectivity solutions for the London Underground. Despite growth in both our Retail and Wholesale order intake, the ongoing challenges in the economic environment continue to present a level of uncertainty in the UK B2B environment.

Global

Year ended 31 March	2022 £m	2021 £m	Change £m	Change %
Adjusted ^a revenue	3,362	3,731	(369)	(10)
Adjusted ^a operating costs	2,906	3,135	(229)	(7)
Adjusted^b EBITDA	456	596	(140)	(23)
Depreciation & amortisation	355	405	(50)	(12)
Adjusted^a operating profit	101	191	(90)	(47)
Capital expenditure	201	188	13	7
Normalised free cash flow ^c	131	187	(56)	(30)

Adjusted^a revenue
£3,362m

(10)%

Adjusted^a operating profit
£101m

(47)%

Revenue^a declined by 10% primarily due to continued challenging market conditions, the impact of prior year divestments, and a £106m negative foreign exchange movement, partly offset by relationship-driven lower margin equipment sales. Revenue^a excluding divestments and foreign exchange declined by 3% reflecting reduced customer business activity, resulting in lower project-based spend and higher margin change control sales.

EBITDA^b declined by 23% reflecting lower revenues, the impact of prior year divestments and a £35m negative impact from foreign exchange, partially offset by lower operating costs from ongoing modernisation and rigorous cost control. EBITDA^b, excluding divestments, one-offs and foreign exchange was down by 14%.

Depreciation and amortisation declined by 12%, mainly due to reductions in capital investment over the last few years. Operating profit decreased by £90m.

Capital expenditure was up 7%. Normalised free cash flow^c declined by £56m mainly reflecting lower EBITDA^b and higher capital expenditure offset by improved working capital.

Order intake was £3.6bn, down 1% year on year. Our growth product portfolio has continued to increase, now representing around half of the order intake this year and revenue from our growth portfolio, excluding divestments and foreign exchange, increased by 7% year on year.

Openreach

Year ended 31 March	2022 £m	2021 £m	Change £m	Change %
Adjusted ^a revenue	5,441	5,244	197	4
Adjusted ^a operating costs	2,262	2,307	(45)	(2)
Adjusted^b EBITDA	3,179	2,937	242	8
Depreciation & amortisation	1,876	1,707	169	10
Adjusted^a operating profit	1,303	1,230	73	6
Capital expenditure	2,548	2,249	299	13
Normalised free cash flow ^c	448	486	(38)	(8)

Adjusted^a revenue
£5,441m

4%

Adjusted^a operating profit
£1,303m

6%

Revenue^a growth was driven by better trading in fibre-enabled^d products, up 9% and Ethernet, up 6%. This was partially offset by declines in legacy products including 183k reductions in WLR voice lines supporting FTTP lines and a decrease in chargeable repairs, driven by lower repair volumes.

EBITDA^b grew 8% driven by revenue^a growth and lower costs reflecting lower repair volumes, ongoing efficiency programmes and a £10m one-off, partially offset by higher FTTP provision volume and recruitment.

Depreciation and amortisation grew £169m driven by increased fixed assets, including network and leased vehicles.

Capital expenditure grew 13%, driven by FTTP, with more customers connected and higher network build, partly offset by efficiency savings and lower non-FTTP spend. FTTP now accounts for over half of our capital expenditure.

Normalised free cash flow^c declined by 8% driven by higher capital investment, payment of the one-off team member bonus in FY21, timing of working capital and lease payables.

We continue to see good traction on our Equinox FTTP long-term pricing offer, with 42 CPs now onboard. The CPs operating since October are currently performing well against the 'fibre only' take up measure.

a Adjusted measures exclude specific items, as explained on [page 209](#).

b Adjusted (being before specific items, share of post tax profits/losses of associates and joint ventures and net non-interest related finance expense), as explained on [page 210](#).

c Free cash flow after net interest paid and payment of lease liabilities, before pension deficit payments (including their cash tax benefit) and specific items as explained on [page 211](#).

d FTTP, FTTC and Gfast, including Single Order Migration.

A letter from the Chair of Openreach



It's fair to say it's been another challenging year

The pandemic continued causing complexity and concern, while increasingly extreme winter weather seriously tested both our engineers and customers.

Our purpose hasn't changed; we're the UK's broadband network and we're keeping the nation connected during these challenging times.

With all this in mind, I'm hugely proud that we had our best service performance for copper and fibre products this year – meeting or exceeding all of Ofcom's quality of service standards – and driven customer satisfaction to a record high.

We've also built our new ultrafast, ultra-reliable full fibre network at a record pace, reaching 50,000 premises every week.

In execution mode

One of the main reasons for recent success is our crystal clear priorities.

With Ofcom's long-term regulatory framework now firmly established, we're no longer in planning or investment case mode. It's now all eyes forward on execution.

We've been operationalising our plan – building and upgrading millions of customers to our new network – and doing that while delivering the very best customer experience.

It's our job to stay stable and sustainable for our shareholder BT Group plc, Openreach colleagues and customers, and the nation. And I'm pleased we've made such good progress.

Build, build, build

Today we're building full fibre faster and cheaper than ever before, reaching more than 7m premises and counting (more than our competitors combined). We're on track to get to 25m premises by the end of 2026.

Openreach will never be just a city fibre builder. Of course, connecting rural

homes is tough, expensive and complex, but we don't want to leave anyone behind. We've always gone the extra mile to connect isolated communities with inventive engineering and funding solutions – and that will continue.

Our plans include a big commitment to rural Britain, and are fundamental to the UK Government bringing 'gigabit capable' broadband to 85% of the country by 2025.

Driving take-up

Building our full fibre network is pointless if customers don't upgrade to it.

So we're working with CPs to drive rapid take-up. Our commercial offer, Equinox, gives long-term pricing certainty for those that commit to selling full fibre where it's available. So far 42 CPs have signed up – including all our largest customers.

In total, almost 1.8m homes and businesses are now reaping the benefits of full fibre. We're now breaking records on order volumes and provisioning activity every week, so the strong customer demand we're seeing should continue.

Upgrading the UK to digital phone lines

At more than a quarter of the way through our build and with more customers upgrading than ever, we are starting to speed up work on withdrawing our old copper-based network.

We need to get customers switched to all-digital quickly as we work with CPs to close down analogue services by the end of 2025.

Educating consumers about full fibre's benefits will be vital, and we know we must help drive digital awareness and take-up to make sure no one is left behind.

Investing in people, diversity and inclusion

We employ 37,000 people across the UK and we're proud to be the largest apprenticeship provider in the private sector.

This year, we announced we'd be creating another 4,000 jobs building and maintaining our networks. We're also aiming to retrain an extra 3,000 existing engineers to support customers on our new platform.

We've been making progress on being more inclusive and diverse. Engineering has historically been dominated by white men. But we want to represent the

communities we serve better and attract brilliant and diverse talent to boost our creativity and innovation.

Around 16% of our trainee recruits were women last year – up from 12% the previous year, partly thanks to us making the language of job adverts less gendered.

And we're going further. We have an ambitious new set of goals, including targets on ethnic minority representation, in our D&I commitments.

Building responsibly and safely

As one of Britain's largest businesses, we know we have a duty to society that's continually under review – and we take that responsibility seriously.

There are lots of ways we can make positive changes, but perhaps the biggest opportunity is through our fleet.

With more than 29,000 vehicles, we run the UK's second largest commercial van fleet. It helps our engineers serve customers in every corner of the country. But it has a negative impact on the environment too. So we're aiming to switch the majority of our fleet to electric or zero emissions by 2030.

We've already bought more than 1,000 electric vans but there are some big challenges to overcome to reach our target. There needs to be a national charging infrastructure to support people travelling around the country. Incentives for converting major fleets like ours need to stay. They'll have a big effect on the second-hand market and help the UK meet its net zero target.

Safety is also a big priority. We reached an important goal this year with all of our engineers now using new, safer ladder equipment which is dramatically reducing falls from height.

All eyes forward

Like nothing before, the pandemic has underlined that internet access and decent broadband are no longer a luxury but a necessity and showed that no one should be left behind.

The research agrees. Full fibre is faster and more reliable, and will deliver huge economic, social and environmental benefits right across the UK.

It's the right thing for our business, shareholder, colleagues, customers and the nation. Our priorities are crystal clear. So you'll continue to see us in execution mode next year and beyond.

Mike McGighe
Chair, Openreach
11 May 2022

Risk management

Building trust across BT Group

Risk management taken seriously and done simply and consistently helps us make the best decisions for our colleagues, customers, shareholders and wider stakeholders in the face of uncertainty. This not only helps us protect BT Group, but helps drive our growth.

Strong foundations built on trust

We've built our business to thrive based on stakeholder trust. This means we must manage risks smartly to achieve our ambition, deliver our strategy, support our business model, and protect our assets while leading the way to a bright, sustainable future.

Our approach to risk is simple and consistent: we have our *risk mindset and culture*, which encapsulates our *risk process and activities* and is brought together by *risk leadership and governance*. Collectively, this is our risk management framework.

Risk mindset and culture

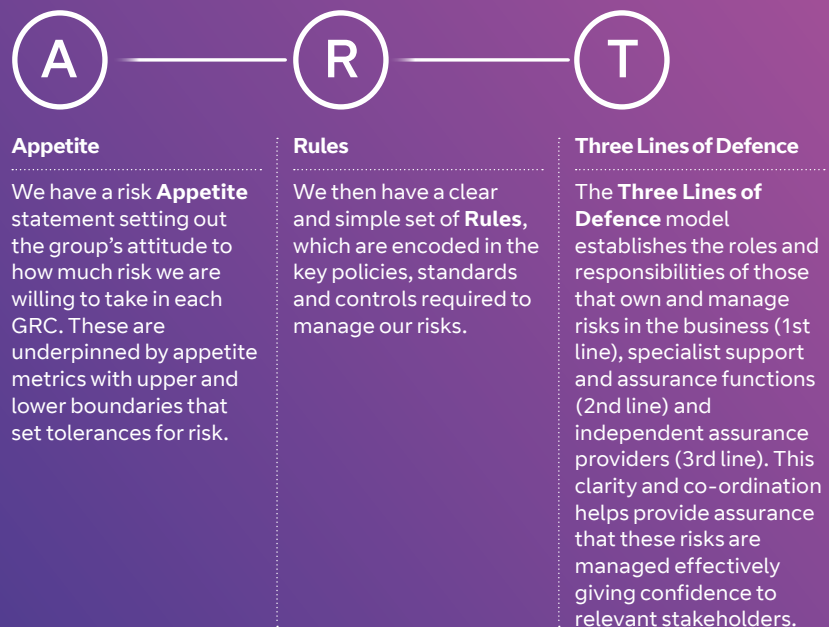
We engender a set of behaviours and expectations that drive risk awareness throughout our business activities. It is driven by the tone from the top and supported by our people management systems and promotes timely and sensible risk interventions and actions that improve operational integrity and help make smart choices about risks – being bold without being reckless.

We communicate expected behaviours to every colleague through our code to get risk awareness woven into the fabric of our culture. We have an ongoing programme of training and communication, and defined roles to formalise risk management, while continuing to integrate risk thinking and procedures into key areas of decision-making.



We have our risk mindset and culture, which encapsulates our risk process and activities and is brought together by risk leadership and governance.”

The Art of Risk Management



Risk process and activities

Our approach to risk management has evolved over the last few years with a focus on making it clear and simple across all business areas, facilitating learning, aggregation, shared responses, consistent and efficient activities; and effective dot-joining.

We divide our risk landscape into group risk categories (GRCs) of our enduring risks – like communications regulation and financial control – that will continue to be important to us over time and can be managed consistently.

We are also constantly aware of and deal with specific risks and uncertainties that arise which are significant and dynamic in nature, our point risks and emerging risks.

For each GRC, we have developed an approach that we call *The ART of Risk Management*. This year we've made good progress in establishing the ART of Risk Management across each GRC, which is driving improved accountability, helping to monitor exposures; delivering assurance over the design and operation of key controls; and providing clarity on actionable steps to take the right decisions at the right times.

Risk management continued

Building trust across BT Group

“

Our governance structures ensure that different oversight bodies and leadership teams get the right level of information on our risk exposures and how we are managing them at the right times.”

Risk leadership and governance

A key factor for great risk management is tone from the top. Our leaders visibly believe in, support and are constantly engaged in risk management throughout their activities, ensuring risk is considered in key business processes and decisions.

There is an *Executive Committee* sponsor for each GRC. They set out how we measure our exposure to that category of risk, how we manage it (including setting the right policies and controls) and ensure that we take the actions necessary to achieve and maintain our target risk appetite and level of control. Point and emerging risks relating to each GRC are continuously reviewed and managed. Each GRC and the corresponding *Executive Committee* sponsorship is group-wide, with the aim of ensuring we join dots across the business and think about our risks in a non-siloed manner.

Each of our units (CFUs, TUs and CUs) also reviews, on a periodic basis, its exposure in all these categories and identifies and

manages the point and emerging risks that might affect its performance.

Our governance structures ensure that different oversight bodies and leadership teams get the right level of information on our risk exposures and how we are managing them at the right times. This promotes robust discussion and prioritisation, the right monitoring, and better decision-making.

Continuous learning and improvement

Whether it's reviewing and adjusting risk appetite, managing new or emerging risks, implementing action plans, working with new stakeholders or managing risks in new programmes and change initiatives, risk management is a continuous process. We're also always evolving, learning and adapting to help build the right mindset and culture, value-adding process and activities and effective leadership and governance. The goal however remains constant: to help the organisation make smarter decisions to protect BT Group and help drive growth.

What our leaders say about risk



Philip Jansen

Chief executive

“BT Group is forward looking and innovative but also built on trust, which is about being smart in the risks we take to transform”



Marc Allera

CEO, Consumer

“Trust is not letting our customers down, ever. We think about the balance, how we can be smart about risk and make sure we don't let our customers down”



Bas Burger

CEO, Global

“We deliver trust by delivering perfect predictability, not just on network, cloud and cyber security but predominantly on the business outcomes that customers are expecting of us”



Simon Lowth

Chief financial officer

“The leadership of the group understands the critical role that great risk management, great assurance and great controls play in our long-term health and success”



Sabine Chalmers

General counsel, company secretary & director regulatory affairs

“Risk management underpinned by our code sets out the principles of how we expect our people to behave, do business and connect for good”

How risk aligns to strategy

Risk management forms the foundation of trust which is fundamental to our purpose, ambition and strategy. This is demonstrated by the way the GRCs align with our assets (see [pages 12 to 13](#)) and the strong synergies resulting from aligning risk management to our internal strategic framework and business

planning and performance management processes. Strategy and risk management form a strong partnership to ensure information is shared and disseminated through the business in a joined-up way to have the greatest impact, management consideration and engagement while reducing duplication of effort.



Risk management forms the foundation of trust which is fundamental to our ambition and strategy.”

Emerging risk hubs

We define emerging risks as uncertainties that have the potential to be materially significant, but whose causes and impacts cannot be fully defined at present. These tend to have more external drivers and may manifest over longer time horizons. Some examples are also shown under each GRC in the next section.

To address the more ambiguous and cross-group impacting nature of emerging risks, we've developed a group of small cross-functional teams, or hubs, involving representatives from risk management, strategy, finance, operations, subject matter experts and representatives from relevant CFUs, TUs and CUs. These teams share intelligence, identify potential trade-offs or conflicts, and agree specific actions. Actions could include enhancing our preparedness, monitoring specific developments or investigating information gaps.



Geopolitical uncertainty

The situation is dynamic and fast moving but the Russian invasion of Ukraine poses a serious threat to the global security order and liberal democracy. This raises and intensifies many specific areas of risk including but not limited to:

- the safety and security of our colleagues in the region
- the possibility that retaliatory cyber attacks could affect our networks and data, or those of our customers
- the impact on our direct and indirect supply chain
- the wider economic uncertainty, particularly on inflation and cost of living.

As well as standing up teams to manage the coordination of operational activities and ensure compliance with the new sanctions, the *Executive Committee* is meeting regularly to review potential second order and longer term impacts, agree policy positions and consider strategic issues.

Joining the dots

It is essential that risks are owned and managed by those closest to the business operations and there is leadership accountability. As such, each CFU Leadership Team regularly brings together their risks for review, discussion, prioritisation, ownership and action.

These risks are then categorised by GRC to give a line of sight and enable broader themes and trends to be identified. This

helps us join the dots and understand the potential overall impact and enable a consistent and coordinated response.

To help facilitate this dot joining, we have rolled out a new digital risk management tool which we call ARTEMIS. This provides real-time access to risk and assurance information and minimises our reporting burden so that we can focus on the right behaviours, have the right conversations and take the right actions.

Our principal risks and uncertainties

Our principal risks set out in the following pages align with our GRCs. While these categories are enduring, each contains numerous point and emerging risks, examples of which are noted. GRCs are further categorised as Strategic, Financial, Compliance or Operational.

Strategic

Strategy, technology, and competition

Sponsor: Chief financial officer

What this category covers

Whilst developing and executing a strategy that meets changing customer expectations and grows value for all our stakeholders, we must manage risks around an uncertain economic context, intensifying competition, and rapid technological change.

Key factors we consider in this category

- Changes in the economic context, competitive and technology landscape or in customer needs could impact our market share, revenue, profit, shareholder value and reputation.
- Pursuing the wrong strategy or not having the strategy reflected in the business plan would impact our ability to compete in the market.
- Not executing against the strategy could limit our ability to transform and create sustainable value over the long term.

Some of the things we do to manage it

- Extensive monitoring, research and analysis of economic, market, competitor and technology trends combined with listening and engaging with customers for meaningful trends and insights.
- Ongoing investment in our networks, solutions and customer service to provide the best possible outcomes and experience for our customers.
- Frequent *Executive Committee* and Board reviews of performance against strategic priorities and targets.

Example point risks in this category

- Drop in consumer and business confidence as a result of the escalating geopolitical situation, pressure on the economy and cost of living and potential resurgence in Covid-19.
- Slower than expected recovery in the enterprise and global markets adding pressure on revenue.
- Increasing competition, particularly in the fixed infrastructure market.

Example emerging risks in this category

- New disruptive technologies which substitute our networks/products.
- Significant changes in the market structure which could limit our ability to compete.

Stakeholder management

Sponsor: Corporate affairs director

What this category covers

Stakeholder management is essential for us to achieve our ambition built on trust. We must listen, and communicate with our key stakeholder groups in a fair and transparent way, to establish and maintain strong, sustainable relationships.

Key factors we consider in this category

- The management of our reputation and perceived trustworthiness is a broad topic, within which certain stakeholder relationships may require additional focus.
- Ineffective management of stakeholders' expectations or failure to anticipate potential impacts upon them and the communities we serve might damage their trust in us.
- Particularly sensitive topics considered include network plans, customer fairness, net neutrality, responsible use of technology, environment, social and governance factors, human rights and industrial relations.

Some of the things we do to manage it

- Media monitoring, evaluation and tracking our reputation across our main stakeholder groups to inform our plans.
- Proactively engaging with key stakeholders to build stronger relationships, better understanding of risks and exploring more positive outcomes for BT Group in a fair and transparent way.
- Centralised coordination of media, political and speaking engagements, and press releases and market announcements which are overseen by the *Disclosure Committee*.
- Our Manifesto (see [pages 32 to 33](#)) sets out our priorities and commitment to enabling growth through technology that is responsible, sustainable and inclusive. This has Board-level governance provided by the *Digital Impact & Sustainability Committee*.

Example point risks in this category

- Full fibre build commitments and rural connectivity.
- Impact of inflation and cost of living on consumers.
- Growing focus on the digital divide and its implications.
- Managing the interests of all investors and giving due regard to all stakeholders.

Example emerging risks in this category

- Climate change agenda and perceptions of our sector's role in carbon emissions.
- Misinformation on 5G health concerns.

Financial

Financing

Sponsor: Chief financial officer

What this category covers

We rely on cash generated by business performance supplemented by capital markets, credit facilities and cash balances to finance operations, pension scheme, dividends and debt repayment.

Key factors we consider in this category

- Financing is the risk that we cannot fund our business cash flows or meet our payment commitments.
- This could be caused by not generating enough cash, inability to refinance existing debt, being unable to access capital markets, or a big increase in our pension scheme obligations.

Some of the things we do to manage it

- Regularly reviewing actual and forecast cash flow performance.
- Undertaking treasury risk management processes, Board oversight, delegated approvals, and lender relationship management.
- Performing regular viability assessments and conducting scenario analyses.
- Analysing our pension schemes' funding position and investment performance regularly, negotiating funding valuations and reviewing de-risking opportunities.

Example point risks in this category

- Market disruption and economic downturn caused by Covid-19 and the geopolitical situation.
- Our credit rating being downgraded.
- An increase in our pension deficit.

Example emerging risks in this category

- Review of pension funding legislation and regulations, risking bigger pension liabilities or giving us less time to make deficit payments.
- Future debt capital markets might not suit all our debt needs.

Financial control

Sponsor: Chief financial officer

What this category covers

We have in place financial controls to prevent fraud (including misappropriation of assets) and to report accurately; failure to do this could result in material financial losses or cause us to misrepresent our financial position, undermining trust and damaging our reputation.

Key factors we consider in this category

- Our financial controls provide financial planning and budgetary discipline, transaction processing efficiency, and reporting accuracy while reducing the risk of fraud, leakage and errors.
- We could fail to apply the correct accounting principles and treatment in producing the income statement, balance sheet and equity statement which could result in financial misstatement, fines, legal disputes and damage our reputation.
- Failure to apply appropriate tax processes could result in BT Group missing its tax compliance or reporting obligations and facing challenge and fines from tax authorities.

Some of the things we do to manage it

- Maintaining an internal controls framework with clear accountability and delegations across the three lines of defence.
- Performing quarterly control attestations.
- Conducting annual testing covering all key controls, including relevant IT general controls.
- Tax risk management processes and training.
- Continuing to enhance processes, systems, controls, and the operating model, for instance by investing in enterprise-wide platforms to deliver improved and automated accounting and controls.

Example point risks in this category

- Failing to simplify and modernise our finance processes and operating model could make it harder for us to be agile, proactive and customer centric.
- Sophisticated or cumulative low-level fraud schemes could remain undetected.
- Impact of complex legacy systems on our internal controls.
- Complex and changing international tax regulations and requirements from different tax authorities.

Example emerging risks in this category

- Changes to controls framework requirements resulting from changes in regulation and legislation.
- Opportunities and risks associated with Robotic Process Automation applied to financial controls.
- Higher propensity for fraudulent behaviour caused by increasing cost of living.

Our principal risks and uncertainties continued

Compliance

Communications regulation

Sponsor: General counsel, company secretary & director regulatory affairs

What this category covers

We work with key regulators as they define clear, predictable, and proportionate regulations that protect customers and society while ensuring service providers can compete fairly. We then must work in compliance with these regulations, maintain trust and strong relationships while delivering on our vision and sustainable value growth.

Key factors we consider in this category

- Areas of non-compliance or weak controls could result in increased regulatory challenge and formal investigations which could lead to reputational damage, fines and/or loss of licences.
- Strained regulatory relationships reduce our ability to influence regulatory decisions which could position BT Group at a disadvantage relative to competitors.
- Unsupportive regulation could impact our ability to invest at pace and scale in our full fibre rollout, 5G, and converged connectivity; and restrict our ability to innovate whilst doing so.
- Key areas that could result in regulatory scrutiny include billing accuracy, major system resilience, customer complaints, support for vulnerable customers, migration away from legacy services, and effectiveness dealing with major incidents.

Some of the things we do to manage it

- Proactively engaging with our regulators at different levels and on different policy topics.
- Ensuring fairness in customer experiences, for example when moving customers on to our new networks and interacting with vulnerable customers.
- Maintaining processes so that we follow regulations carefully, building trust and enabling positive future dialogue with policymakers.
- Making sure the Commitments are always front of mind for all colleagues, including training those in high-risk roles.
- Supplying timely and accurate information to our regulators where required.

Example point risks in this category

- Inability to demonstrate compliance to new commitments and regulations such as customer fairness.
- The regulatory environment shifts to favour or support expansion of new market participants.
- Challenges in shutting down our legacy networks.

Example emerging risks in this category

- Regulation not keeping pace with the changing economics in the value chain affecting our ability to compete.

Data

Sponsor: Chief digital and innovation officer

What this category covers

Our data strategy seeks to create value and enable efficiency while providing a robust framework for data governance and regulatory compliance. We must ensure the entire organisation follows applicable data regulations while anticipating and adequately preparing for future ones.

Key factors we consider in this category

- We must be vigilant in protecting all types of data including high volumes of sensitive customer data, colleague and personal data. All must all be appropriately risk assessed, classified and managed.
- Failing to comply with global data protection laws or regulations that apply to us could damage our reputation, affect our stakeholders' trust in us and harm our colleagues, customers and suppliers.
- It also means that we could face potential litigation and fines and penalties.

Some of the things we do to manage it

- Continuously operating and enhancing our data governance programme to tackle existing and future data regulatory risks.
- Reviewing the use of personal data across the business to make sure our data protection policies are followed.
- Running data protection and data handling training, and providing tools to help our colleagues make better, more risk aware day-to-day decisions.
- Monitoring the post-Brexit regulatory landscape and making contingency plans to keep data flowing where it's needed.

Example point risks in this category

- The UK losing data adequacy status from the EU.
- Preventing data loss in remote working environments.
- Complying with data protection laws and regulations, while seeking innovative uses for data.

Example emerging risks in this category

- Changes to data protection laws and regulations that apply to us wherever we operate.
- Increased regulatory focus on governance and ethics around data propositions and processes.

Legal compliance

Sponsor: General counsel, company secretary & director regulatory affairs

What this category covers

We seek to remain compliant with all substantive laws. Key areas of compliance activity surround laws relating to anti-bribery and corruption, competition, trade sanctions, export controls and corporate governance obligations.

Key factors we consider in this category

- Serious breaches of legal compliance can take place in many forms and can arise anywhere including but not limited to higher risk regions, countries and transactions as well as on complex matters and those where there is high pressure to deliver.
- Serious breaches could lead to prosecution, litigation or to a regulator stepping in, all of which might lead to fines or affect our ability to operate, especially if the breaches were deemed criminal and could adversely impact our reputation.
- This means, where appropriate, we take bold, evidenced, and defensible decisions around how we comply to applicable laws while empowering the business to take advantage of commercial opportunities.

Some of the things we do to manage it

- Through our code we foster a culture where colleagues know the standards expected and can speak up if something's not right.
- Assessing risks regularly when providing legal or compliance advice on strategic projects, signing new business, and commercial operations.
- Scanning the horizon to prepare for legislative changes and developing policies to address them.
- Providing training to colleagues so they know where legal and compliance risks come from, and how to handle them or to get expert help to handle them.
- Carrying out monitoring and assurance on day-to-day operations, regions, partners, projects and suppliers. Anomalies are investigated and remedied with learnings shared, where appropriate.

Example point risks in this category

- Rapidly changing international trade sanctions arising due to the Russian invasion of Ukraine.
- New technologies being exploited in multiple countries.
- Working with third parties in multiple jurisdictions.

Example emerging risks in this category

- Changes to existing or potential new laws which may be put in place in response to geopolitical dynamics (for example new trade sanctions) or to address concerns in a particular area of law.

Financial services

Sponsor: CEO, Consumer

What this category covers

BT Group has had very limited exposure to financial services regulation, but it recently launched, through EE, a mass-market proposition regulated by the FCA. This is expected to scale-up and broaden out in the coming years. As such EE must meet all applicable FCA principles, rules and requirements.

Key factors we consider in this category

- Our products, services and activities including those provided by subsidiaries, local business partners and franchisees could lead to poor outcomes for customers.
- Establishing new organisational and operational capabilities that understand, interpret, and manage compliance with regulatory requirements to enable launch of new FCA regulated services.
- Operating outside FCA rules, requirements or permissions could lead to customer harm, fines, loss of FCA permissions, poor adoption of new services and broader reputational damage.

Some of the things we do to manage it

- Operate a second line compliance team to provide support and oversight.
- Review and update relevant policies and standards annually with controls implemented into operational procedures.
- Mandatory colleague training of relevant FCA and other regulatory requirements aligned to job roles.
- Operate a breach reporting process to review, investigate and report events within required timelines.
- Undertake new and existing financial services product reviews and financial product promotion reviews as part of the development cycle and annually thereafter.
- Horizon scanning and interpretation of new regulatory requirements, maintaining regular communication with the regulator.
- Applying a proportionate governance framework to provide clear responsibility, accountability and reporting.

Example point risks in this category

- Project resources and operational capability to deliver planned rollout of compliant financial service products.
- Organisation design to support financial services strategy across BT Group.
- Additional operational requirements expected from new FCA requirements around Consumer Duty.

Example emerging risks in this category

- Potential changes to regulatory perimeter relating to Buy Now Pay Later and short-term interest-free credit.

Our principal risks and uncertainties continued

Operational

Service interruption

Sponsor: Chief technology officer

What this category covers

Our aim is to deliver best in class network performance across fixed and mobile networks and IT. This involves managing all risks that could disrupt the services we provide.

Key factors we consider in this category

- Service interruptions may be caused by various external factors such as, but not limited to, adverse weather conditions and accidental or intentional damage to our assets.
- The impact of poorly planned or executed maintenance and upgrade changes on our networks and IT can contribute to service interruptions.
- Some service interruptions may depend on the reliability of our suppliers and partners, highlighting the importance of selecting the right partners and maintaining effective relationships.
- The quality of our incident response and recovery helps us minimise the effect of service interruptions. A risk-based approach is needed to minimise customer impacts (for example prioritising essential services).

Some of the things we do to manage it

- Continuous capacity planning, asset lifecycle management, monitoring of our network, assets and services.
- Responding quickly and professionally to incidents and reducing their impact through geographically dispersed emergency response teams while communicating effectively with customers.
- Comprehensive testing and change management processes.
- Regularly conducting business impact assessments that feed into business continuity and disaster recovery plans which are tested and kept up to date.
- Operational planning to improve network and IT resilience, including our ability to mitigate for a greater frequency of more severe weather events.

Example point risks in this category

- Global shortage of silicon chips and other key components affected by Covid-19 and geopolitics.
- Managing service impacts of wider strategic decisions to alter the makeup of vendors (for example adapting to governmental decisions around Huawei).
- Ability to transform BT Group and our technology without disrupting service to our customers.

Example emerging risks in this category

- Longer-term climate change causing increased frequency and severity of flooding across the UK, impacting service reliability.

Cyber security

Sponsor: Chief technology officer

What this category covers

Our aim is to protect BT Group, our colleagues and our customers from harm and financial loss caused by cyber security events. We adapt our security posture and controls accordingly to detect and respond robustly to the evolving threat.

Key factors we consider in this category

- As a provider of critical national infrastructure, a cyber attack could lead to disruption for our customers and the country and data could be compromised.
- A poorly managed cyber event could lead to financial loss and reputational harm followed by a sustained loss of market share and could prompt intervention by a regulator who could impose fines or penalties.
- Failure to live up to regulatory, customer and other stakeholder expectations related to cyber security could weaken our reputation in the marketplace.

Some of the things we do to manage it

- Implementing best practice security policies, tools and processes to protect our applications, systems and networks.
- Monitoring external threats and gathering intelligence on evolving cyber techniques, tactics and capabilities.
- Maintaining a vigilant security posture to quickly detect and respond to cyber risks before they become incidents.
- Promoting good security 'hygiene' and behaviour in our colleagues, through communications, campaigns and training.
- Continuing to invest in our cyber defences and security tooling, fostering effective partnerships with industry, government and customers, and empowering our first line of defence to discharge their responsibilities.

Example point risks in this category

- Cyber attacks from nation states, including Russia, targeting critical national infrastructure.
- Being exposed to suppliers with security vulnerabilities.
- Relying on externally hosted cloud services.
- Requirement to comply with the Telecommunications (Security) Act 2021.

Example emerging risks in this category

- AI and machine learning being weaponised as security threats.
- Growing numbers of connected home devices need more focus on protecting customers.

Transformation delivery

Sponsor: Chief financial officer

What this category covers

We are accelerating transformation delivery to build a simpler, more efficient and dynamic BT Group through radically modernising and simplifying our IT architecture; simplifying and refining our product portfolio; migrating to next-generation strategic networks; unlocking cost efficiencies by implementing better, more agile ways of working; being customer-obsessed and redefining our digital journeys, automating our processes and using AI capabilities.

Key factors we consider in this category

- Failing to deliver our externally communicated transformation ambitions will adversely impact our efficiency, financial performance, and customer experience while impacting reputation.
- Our challenge is to simplify and modernise our product portfolio, reduce dependence on out-of-date products and deliver smart, differentiated solutions and outcomes.
- Transforming our customer journeys reduces the risk of us being a laggard on customer and colleague experiences, ensuring we are providing outstanding digital channels, services and experiences.
- Delivering automated, digitised and AI-driven processes reduces the risk of us not being able to realise efficiencies and reduce the cost base.
- Shutting down legacy IT and migrating customers onto strategic networks allows us to operate on modern digital platforms and be the market leader in FTTP and 5G.

Some of the things we do to manage it

- We are reinvesting in building digital and data capability, to reduce costs and drive revenue growth – ensuring that we have the right resources to deliver change effectively.
- Having a strong governance model with clear ownership by senior leaders of the operational and financial outcomes that need to be delivered.
- Robust tracking and reporting using financial and non-financial measures to make sure we generate value.
- Quarterly performance governance model to ensure funding is being prioritised to those programmes delivering the most strategic value.
- Collaborating across the group in a way that properly reflects our customers' end-to-end journeys.

Example point risks in this category

- Delivery of enablers such as strategic architecture.
- Managing complex interdependencies and the migration of the final customers in order to close legacy IT and networks.
- Delivering the volume of change at pace whilst remaining focussed on reducing the cost base.

Example emerging risks in this category

- Changing external environment impacting the size, scale and speed of transformation required to deliver our strategy.

People

Sponsor: HR director

What this category covers

Our colleagues are central to delivering our ambition and our people strategy aims to enable a culture where everyone can be their best. This means we must manage risk around our organisational structure, skills and capabilities, engagement and culture, wellbeing and the diversity of our workforce.

Key factors we consider in this category

- To attract and retain the right talent in the right places for an organisation as large and complex as BT Group, we need to have effective strategic workforce planning.
- Day-to-day people management activities include managing a high quantum of recruitment, onboarding and terminations, processing payroll and provisioning access to relevant training and development opportunities.
- Failure to engage the workforce, ensure their health and wellbeing, manage industrial relations and create a diverse and inclusive workplace could impact our performance, customer service and transformation ambitions.

Some of the things we do to manage it

- A group people strategy underpinned by a workforce plan.
- Aligned performance goals and performance management review processes cascaded through clear organisation structures, roles and job descriptions.
- Skills and capabilities assessment, investing in group-wide workforce and talent planning, providing wellbeing support and unlimited training and development, with both role-specific and future skills in mind and a succession planning process.
- A D&I strategy to raise awareness, address bias and promote People Networks and support.
- Listening to colleagues through employee engagement and surveys, town halls or social platforms, and maintaining close relationships with formal employee representative groups and unions.
- Providing fair, competitive, and sustainable remuneration to colleagues that promotes smart risk taking, supports engagement and retention and aligns colleagues' interests with those of shareholders.

Example point risks in this category

- Social disruption and challenges around post-pandemic return to workplaces.
- Skills gaps arising from changes towards a digital organisation.
- Widening gap between cost of living and wage inflation potentially leading to industrial action.

Example emerging risks in this category

- Long-term social and workplace changes.
- Growing colleague activism on social or environmental topics.

Our principal risks and uncertainties continued

Operational

Health, safety and environment

Sponsor: Chief technology officer

What this category covers

BT Group has diverse operations in various locations and working environments that can pose a health, safety and environment risk to our colleagues, partners, or the public. We have a duty of care to make sure our colleagues and partners are safe and healthy, and perform at their best while managing hazards that could cause harm.

Key factors we consider in this category

- Certain high hazard operations such as occupational road risk, working with high voltage electricity, electro-magnetic fields, lasers, aerial rigging, civil engineering works (road works and construction), highway and railway operations, high pressure pipelines, manual handling and hazardous substances.
- Not promoting and embedding suitable safety management and environmental management systems incorporating continual improvement will impact our ability to establish and maintain a safe and compliant business, protecting our colleagues at work.
- Ineffective health and safety and environmental standards could result in legal and financial penalties, subsequent reputational and commercial damage with the potential to restrict future enterprise projects.

Some of the things we do to manage it

- Group Policy Statements which are underpinned by minimum standards, and a safety framework, which are reflected in our code.
- Training our colleagues and ensuring they are clear on their role and accountabilities with regards to health, safety and environmental practices.
- Monitoring our colleagues' health and safety through surveys and focus groups, supported by a dedicated portal.
- Using an electronic incident reporting system to monitor and evaluate our performance on health and safety.

Example point risks in this category

- Covid-19 related risks.
- Civil and construction work supporting fibre rollout.
- Inspection and replacement programme for defective telegraph poles.
- Keeping our sites clean, tidy and environmentally safe.

Example emerging risks in this category

- The long-term health effects of lengthy periods of social restriction and limited mobility as we emerge from the pandemic.
- Future compliance with developing regulation related to commercial use of drones.

Major customer contracts

Sponsor: Chief executive

What this category covers

BT Group offers and delivers a diverse mix of major contracts that contribute to our business performance and growth. These include winning and retaining major private and public sector contracts in a highly competitive and dynamic environment, while navigating customer relationships and risk around complex agreements, delivering highly sensitive, critical or essential services globally.

Key factors we consider in this category

- BT Group's strategy, products, services and target markets must align with the needs of our major customers to pursue and win new customer contracts in a dynamic and fiercely competitive environment.
- Customer contractual terms can be onerous and unfavourable if they are challenging to meet, and could lead to delays, penalties and disputes. This is particularly prevalent in public sector contracts.
- Delivery and service failures against obligations and commitments could damage our brand and reputation, particularly if they affected critical infrastructure contracts or security and data protection services.
- Failure to effectively manage contract exits, migrations, renewals and disputes can erode profit margins and affect future customer relationships.

Some of the things we do to manage it

- A clear governance framework to assess new business opportunities, manage the bid process, and monitor in-life contract risks.
- As part of the bid process, non-standard unfavourable terms and conditions are assessed and mitigations put in place where appropriate.
- A cycle of regular contract reviews led by senior management and a separate review team.
- Using advanced contract and obligation management tools to support frontline contract managers.

Example point risks in this category

- Customer investment and procurement delays due to Covid-19, macroeconomic and geopolitical conflicts.
- Specific project execution especially when involving complex, sensitive, or new technologies.

Example emerging risks in this category

- Inability to pivot if macroeconomic factors affect government and other customers' IT budgets.
- Legislative changes to be made to procurement regulations following Brexit.

Customer service

Sponsor: CEO, Consumer

What this category covers

Our aim is to provide our customers with stand out service so we can build personal and enduring relationships while taking extra care with our vulnerable customers. We aim to maintain customer satisfaction while continuing to migrate customers from legacy products to newer products and services, while maintaining billing accuracy.

Key factors we consider in this category

- Failing to continuously digitise and improve our customer experience could negatively affect customer satisfaction and retention, colleague pride and advocacy, our group revenues and brand value.
- Central to this is being accurate and competitive with our pricing, billing, and collection, managing the lifecycle of all our products and services, managing inventory and supply chain, and operating in compliance with customer obligations and product and service standards.
- We must also take particular care for vulnerable customers and handle customer complaints empathetically.

Some of the things we do to manage it

- Delivering on our promises about the service levels customers should expect from us and tracking a range of customer experience performance metrics.
- Planning with all our suppliers how we'll manage ongoing relationships and risks (for example the impact of a potential future pandemic resurgence).
- Piloting schemes and testing customer equipment to minimise the impact of new hardware, services or platforms.
- Making sure we won't be short on key skills by following a colleague retention and skills development plan.

Example point risks in this category

- Ability to fully migrate from legacy services to new service platforms.
- Challenges in retaining and recruiting current and future skill sets.

Example emerging risks in this category

- Long-term changes in customer needs and expectations.

Supply management

Sponsor: Chief financial officer

What this category covers

The successful selection, onboarding and in-life management of suppliers is essential to our delivery of quality products and services. We use a large quantum of suppliers and must make decisions on concentration, capability, resilience, security, costs and broader issues that could impact our reputation.

Key factors we consider in this category

- Our reputation is entrusted to our suppliers. We must make sustainable and strategic sourcing decisions that affect the value and quality of the products and services we provide to our customers.
- As such, we must select and onboard the right suppliers across a spectrum of decision criteria including financial, operational, security, environmental, ethical, diversity and reputational perspectives.
- This risk includes in-life management of complex contracts, performance and obligation delivery, compliance, payments, supplier records and relationship management.

Some of the things we do to manage it

- A sourcing strategy with different approaches by category, standard terms and conditions and controls to ensure purchase decisions are made efficiently and effectively.
- Comprehensive supplier due diligence process, contract management, on-boarding and in-life assessment systems.
- Supplier risk management, performance monitoring, renewals, and terminations processes.
- Demand planning and forecasting, inventory management and stock counts to ensure supplies are available as needed.
- Assurance over whether the goods and services we buy are made, delivered and disposed of in a responsible way including monitoring energy use, labour standards and environmental, social and governance impacts.

Example point risks in this category

- Inflationary pressure through the entire supply chain.
- Disruption due to worldwide shortages of critical supplies driven by Covid-19, geopolitics or other localised events.
- Resilience and market power of single-source vendors.
- Supplier-related cyber and data security threats.

Example emerging risks in this category

- Being sure of ethical business practices across our whole supply chain.
- Reliance and exposure to China market volatility and geopolitics.

Task Force on Climate-related Financial Disclosures

We analyse and report on what we're doing to understand and manage the impact of climate-related risks and opportunities on BT Group. This section contains details of our compliance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) in this area (our 'TCFD statement').

As a premium listed company, we're required to report under FCA Listing Rule LR 9.8.6(8) on our compliance with the TCFD framework on a 'comply or explain' basis. This year is the first year of mandatory disclosure, but we've been making voluntary statements since FY20.

We consider the climate-related financial disclosures that follow to be consistent with the TCFD framework and therefore compliant with Listing Rule 9.8.6(8), save for certain items which we summarise on page 68.

Where relevant our disclosures have taken into account TCFD guidance on materiality of information in regard to Strategy and Metrics and Targets^a. Climate-related disclosures are integrated throughout the Annual Report, so in some areas we've cross-referenced to another section containing the relevant information.

Our climate change governance

The Board has overall responsibility for how we identify and manage climate-related risks, delegated to the *Digital Impact & Sustainability Committee* which oversees our climate change strategy, programme and goals and is chaired by non-executive director Leena Nair.

The Executive Committee sets operational strategy on climate change and sustainability and monitors the associated risks, supported by our digital impact and sustainability team.

Our Group Environment Board manages day-to-day climate-related compliance and risk issues on behalf of the *Executive Committee*, reporting back regularly.



Read more on our climate governance on page 97.

Risk management

A structured and consistent approach to risk management

Our risk management framework helps us assess, manage, monitor and act on risks around us successfully delivering our strategic objectives.

We look at potential impacts using quantitative and qualitative measures. These include our revenues and market capitalisation, customer experience, stakeholder perception, and/or the amount of senior management time we have to divert to address an issue. This enables us to determine the relative materiality of a risk.

Identifying, assessing and integrating climate-related risks

We include risks around climate change in our risk management framework. We've included them in several GRCs, including service interruption (physical assets), supply management (supply chain) and stakeholder management (reputation). You can read more about these GRCs on pages 62, 65 and 58 respectively.

We regularly review and report on risks in each category. The *Executive Committee* and *Audit & Risk Committee* regularly review reports on risks in each GRC on a rotational basis. Our internal audit team assesses the effectiveness of our risk management and internal controls on a risk-assessed basis and report findings to the *Audit & Risk Committee*.

This year we brought in an external senior climate expert to discuss climate change with our senior management team. We also had a briefing session with a number of risk owners to deepen their understanding of climate change risks. The session was part of a risk 'hub' looking at the emerging climate-related risks and opportunities we could face and including the findings in our GRCs and advancing this work in the year ahead.

Managing the different risks of climate change

Day-to-day, we manage climate-related risks in the parts of our business they might affect. As an example, BT Sourced carries out checks to measure suppliers' energy use and environmental impact. Deciding how to mitigate or control a risk depends on its impact and likelihood. So for example we're investing in flood defences because increased flooding could have a big effect on us.



You can read more on our risk management framework on pages 55 to 57.

Climate change strategy

Considering climate risks along different time horizons

We think about climate-related risks along short (0–3 years), medium (3–5 years) and long-term (5–20 years) time horizons.

Short-term, we factor physical risks like flooding and higher temperatures into our plans each year (and often over many years). This helps us adapt and reduce their impact on our business and value chain.

Our medium-term horizon is aligned to our financial planning process, enabling us to invest in things like adopting electric vehicles into our fleet.

Our long-term horizon ties into the investment timeframes for strategic assets like our networks. It also influences our strategy, targets and plans on how to respond to the bigger risks and bigger transition implications of climate change. We also undertake scenario planning for climate risks over longer timeframes – up to 2050 and beyond.

There are a lot of physical and transition risks which could apply to us, which we track closely. Based on how we've responded to physical and transition risks we don't deem these risks to be material at present, but we keep this under review as part of our ongoing review and assessment of climate risks.

Embedding climate-related risks and opportunities into our strategy

Climate is a core part of our strategic framework, covered in our 'Lead the way to a bright, sustainable future' pillar. Of course, external legal and regulatory changes play a part in our climate strategy – like phasing out new petrol and diesel vehicle sales in the UK.

We have some ambitious strategic and financial targets, all aiming to decarbonise our operations and value chain and ultimately reach net zero.

With Accenture, we published research which decouples ICT sector carbon emissions from expected growth in data traffic^a. It also looked at opportunities for sustainable technologies to drive big cuts in other sectors' carbon footprints (which will be more critical than ever in the next decade).

To show our commitment to this, we set a new target to help customers avoid 60m tonnes of CO₂e by 2030, based on shifting them to technologies like FTTP, 5G, cloud computing and IoT.

 For more on our climate strategy, see page 35.

Being resilient to climate-related risks

We use TCFD's different reference scenarios to review climate-related risks around transitioning to a lower-carbon economy and the physical impacts of climate change.

Our analysis is based on a core scenario (2°C to 3°C heating) that we think is most likely. We've also reviewed more extreme 'what if?' transition and physical scenarios (1.5°C and 4°C heating) to assess the potential financial impact of climate change on us in 2030 and 2050^c.

Responding to our main physical risks

Flooding: Last year we analysed possible risks from large-scale flooding at 150 business-critical sites (based on the Environment Agency's Extreme Flood Outline). In the scenarios we explored, potential financial impacts weren't material. This is due to the flood defence programme we've now completed in all large and critical sites that were classified as high-risk locations. We've invested around £6m in these defences since the programme began.

We've made good progress in our understanding of – and action in response to – the main flood risks our business faces. This year, we continued to analyse the potential effects of flooding in our UK estate and in line with our future location strategy. We ran a pilot covering 27 operational sites, using additional flood risk data and across a number of heating scenarios to provide a more extreme view of potential flood impacts in 2030 and 2050^c.

The pilot tracked fluvial, pluvial and tidal risk. We tested the likelihood and severity of flooding based on single and combined causes (for example, river flooding with high levels of surface water from rainfall).

This method helped us to identify potential flood sources more precisely, and how they'd affect our building or asset. And that lets us target mitigation

and maintenance activities, and plan our location strategy and future defence investments. We're going to extend this analysis to other critical sites over the next few years.

Heat: In most scenarios in 2030 and 2050, the UK will see more extreme heat days. The risk of these days damaging our network sites is low – mainly because of the cooling system upgrades in our large metronode sites which enable the rooms to operate effectively in up to 45°C external temperatures. We expect this upgrades programme to cost around £60m once complete.

We've also finished upgrades in our strategic data centres and are now doing the same at core mobile sites. So higher UK temperatures should not materially affect our repair or cooling costs.

To minimise the impact of global warming, all cooling plant installed within our exchanges is manufactured and tested to confirm it can operate effectively up to a 45°C ambient temperature. Since 2015, we've invested over £102m on cooling system upgrades for our exchanges, covering the remainder of the estate.

The new adiabatic units cool through fresh air and water evaporation, making us less reliant on refrigerant gases. They work best on the hottest days of the year – well suited to the rising ambient temperatures of different heating scenarios in 2030 and 2050.

Longer term, our FTTP rollout and the closure of the PSTN network will mean fewer physical network sites. That cuts our exposure to physical climate change risks like flooding and hotter temperatures. But it does mean more customers and services going through fewer operational locations. Our flood and temperature mitigations reduce the risks associated with that. And because FTTP services are more 'passive' (with no electronics between exchanges and connected properties), we expect the rollout to reduce our exposure to climate-related risks.

Outside the UK, extreme weather could disrupt service and affect customers and colleagues in key operational sites. In particular, our India sites are still seeing high temperatures and instances of very heavy rainfall. There were no immediate impacts on office operations this year, but we'll continue to monitor the situation closely.

^a Task Force on Climate-related Financial Disclosures: Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures, October 2021.

^b Harnessing data to empower a sustainable future.

^c We use Representation Concentration Pathways 2.6, 4.5, 6.0 and 8.5 to show future emissions scenarios across a different range of mean temperature increases.

Task Force on Climate-related Financial Disclosures continued

Supply chain: Our supply chain reaches nearly 100 countries. But most of our products' raw materials are concentrated in China – where flood risks are predicted to increase under future warming scenarios. This is a shared concern across our whole sector.

We monitor supply chain risks and try to minimise them. We use monitoring tools to identify environmental risks then map them to larger suppliers and up to four tiers down in our supply chain. Our supplier teams get alerts if we detect any potential issues. This can also inform any longer-term plans to diversify our supply base as we consider risks, such as flooding, heat and other weather-related threats.

Managing transition risks and reaching net zero

We face a number of risks relating to potential market, policy, regulatory and technological changes intended to transition society to a low carbon economy. Our new net zero targets – and supporting plans – aim to cut the potential impact of transition risks and support the UK's commitment to becoming a net zero economy by 2050. We're doing lots of different things to try and hit our new targets.

100% renewable electricity: All our electricity worldwide is renewable^a. We know there are risks from potential gaps in UK renewable electricity supply, as well as more energy market volatility (like we're seeing this year). Most of the electricity we use comes from green tariffs. But we're also taking steps to increase the amount of electricity we buy through longer-term power purchase agreements. These give us better pricing predictability and help to grow the overall supply of renewable electricity.

Developments in carbon offsetting: We track developments and prices in the voluntary carbon offsets market to inform our strategy (especially for setting our net zero targets).

Moving to a low carbon fleet: We're aiming to switch the majority of our fleet to run on electric or zero emissions by 2030, which forms part of our goal to reduce our carbon emissions intensity by 87% by end of March 2031 (a group KPI – see [page 45](#)). This reduces the risks associated with policies that aim to cut vehicle carbon emissions (like banning new UK petrol and diesel vehicle sales by 2030).

This year, Openreach grew its fleet of electric vehicles to over 1,000. Subsidies, and there being enough vehicles and charging points, are some of the barriers that we and other businesses face. Previously we stated the aim of switching a third of the fleet to electric vehicles by 2025. Due to these challenges, we're reviewing our short-term plans and the operational and financial implications, which may result in us procuring less electric vehicles over the next few years. We remain committed to our 2030 fleet plans and are partnering with other companies through EV100, the UK Electric Fleets Coalition (both led by the Climate Group) and the new Electric Vehicle Fleet Accelerator to advocate for progressive public policies to push the shift to electric.

Decarbonising our buildings: This year, we continued our energy efficiency and workplace transformation programmes, with a move to fewer, more sustainable and efficient buildings. Longer term, FFTP migration will cut the number of operational buildings like exchanges that we'll need. These steps, together with our renewables commitments, lower risks around carbon pricing.



For further details on our workplace transformation programmes, see [page 25](#).

Helping suppliers cut carbon: If suppliers don't reduce their emissions, they could pass on carbon costs to us by 2030 under a 2°C heating scenario (this is a risk for our whole sector). Our supply chain targets and procurement approach respond to this risk – see the progress against our strategic priorities section ([page 35](#)) and stakeholder section ([page 39](#)) for further details.

We'll keep monitoring possible carbon pricing risks and policy and regulation changes under our risk management framework. This helps us understand the effects of things like growing numbers of company net zero targets and actions taken by governments to cut carbon emissions.

As reported under the climate change strategy heading on [page 67](#), we also see opportunities to support customers to achieve their own transition to net zero by using our products and services.

Our targets, metrics and measurement

There are details of our climate-related targets, programmes and performance in the strategic progress section on [page 35](#). They form a core part of our strategy and risk management approach.

During the year, we brought forward our net zero goal by 15 years. That means we'll be a net zero carbon emissions business by the end of March 2031 – and net zero for our supply chain and customers by the end of March 2041.

As reported earlier on this page, we're reviewing our short-term plans on electric vehicles and will update on our climate transition plans in the year ahead. Because of these uncertainties, we're continuing to develop our interim targets, covering the short and medium term. We plan to include these within our climate transition plans and will provide an update in the TCFD disclosures we make in the Annual Report 2023.

Five per cent of our annual bonus available to eligible managers is based on our science-based target to cut the carbon emissions intensity of our operations by 87% by the end of March 2031. Our *Remuneration Committee* determines whether this target has been met, based on input and recommendations from the *Digital Impact & Sustainability Committee*.

And our commitment to tackling climate change extends beyond BT Group.

During the year, Standard Life (and its parent company Phoenix Group), which provides pension benefits to around 66,000 colleagues, announced ambitious new targets to cut the carbon emissions intensity of its £250bn investment portfolio by at least 50% by 2030.

The BT Pension Scheme, which runs our defined benefit scheme, has also set a goal of becoming net zero for its entire £55bn portfolio by 2035. We continue to work with all our pensions schemes' trustees and providers as part of their transition towards sustainable investments.

^a 99.9% of the global electricity BT Group consumes is from renewable sources. The remaining 0.1% is where renewable electricity is not available in the market.

Our worldwide energy use and greenhouse gas emissions^a

In the table below, we provide an overview of Scope 1, 2 and 3 greenhouse gas emissions. We report in line with the Greenhouse Gas Protocol (ghgprotocol.org).

We will continue to develop our metrics and measurement approach to help us track climate-related risks and opportunities.

Year ended 31 March	FY20				FY21				FY22			
	UK		Non-UK		UK		Non-UK		UK		Non-UK	
	Energy GWh ^e	CO ₂ e ^f Tonnes	Energy GWh	CO ₂ e Tonnes	Energy GWh	CO ₂ e Tonnes	Energy GWh	CO ₂ e Tonnes	Energy GWh	CO ₂ e Tonnes	Energy GWh	CO ₂ e Tonnes
Scope 1^b (direct emissions)												
Gas and oil – heating	198	37,120	2	419	174	32,624	2	326	179	33,279	2	301
Gas and oil – generators	22	5,126	1	172	36	8,318	0.4	96	30	6,842	0.4	86
Fugitive emissions – refrigerants		1,571		628		1,150		2,433		3,087		1,501
Commercial fleet (converted from litres fuel)	512	125,263	3	723	506	121,732	3	723	553	130,971	2	575
Commercial travel (converted from mileage/cost/litres fuel)	29	7,298	20	4,848	9	2,207	8	1,805	11	2,836	5	1,300
Total scope 1	761	176,378	26	6,790	725	166,031	13	5,383	773	177,015	9	3,763
Scope 2^c (electricity incl. nuclear & CHP^g)												
Total consumption (LBM^h)	2,371	605,976	319	112,007	2,334	544,280	248	82,353	2,313	491,152	216	63,091
MBMⁱ renewable consumption CO₂e adjustments												
General consumption	2,260	(577,672)	228	(82,890)	2,334	(544,279)	247	(82,151)	2,311	(490,819)	216	(62,936)
Commercial fleet EV ^j consumption	–	–	–	–	–	N/A	–	–	2	(298)	–	–
Company car EV consumption	–	–	–	–	0.005	(1)	–	–	0.2	(35)	–	–
Total scope 2 CO₂e MBM adjusted		28,304		29,117		–		202		–		155
Total scopes 1 & 2 (MBM)	3,132	204,682	345	35,907	3,059	166,031	261	5,585	3,086	177,015	225	3,918
Worldwide scopes 1 & 2 CO₂e (MBM)		240,589				171,616				180,933		
% change from baseline year FY17 (baseline 404,780)		(41)%				(58)%				(55)%		
Scope 3^d: Worldwide emissions CO₂e tonnes		3,233,007				3,137,330				3,075,045		
Key climate targets												
Intensity metric scope 1 & 2 worldwide emissions tonnes CO₂e per £m value added		17.9				13.5			14.3		Target March 2031	
% change from baseline year FY17 (baseline 31.5)		(43)%				(57)%			(55)%		(87)%	
SBTi supply chain emissions GHG scope 3 Upstream + Operational (GHG category 1–8) kt		2,495				2,347			2,318		Target March 2031	
% change from baseline year FY17 (baseline 3,217 kt)		(22)%				(27)%			(28)%		(42)%	

N/A: Not available or not applicable

a Data presented has been reviewed to a high level of assurance by Lloyd's Register Quality Assurance Limited against Accountability's AA1000AS v3 assurance standard. We restate historical years' data when we think subsequent information is materially significant (e.g. replacing estimates with measured figures).

b Scope 1: direct emissions from our own operations (e.g. fleet/heating fuel combustion).

c Scope 2: indirect emissions from the generation of our consumed energy (mainly electricity) (excludes third-party consumption).

d Scope 3: including supply chain, customer use of our products, and other indirect emissions (such as employee commuting).

e For gas & oil based on GWh equivalent input value before combustion and GROSS calorific value.

f CO₂e: carbon dioxide equivalent emissions.

g CHP: combined heat and power.

h LBM: location-based method for scope 2 emissions accounting – as defined in the Scope 2 Guidance amendment to the Corporate Standard (ghgprotocol.org).

i MBM: market-based method for Scope 2 emissions accounting – as defined in the Scope 2 Guidance amendment to the Corporate Standard (ghgprotocol.org).

j EV: electric vehicle.



You'll find more information and data in our [Manifesto Report and ESG Addendum at bt.com/manifestoreport](https://www.bt.com/manifestoreport)

Viability statement

In accordance with provision 31 of the UK Corporate Governance Code 2018, the directors have assessed the prospects and viability of the group.

The assessment has been based on the company's strategy, balance sheet and financing position, including our £2.1bn undrawn committed borrowing facility which matures in March 2027, and the potential impact of 'Our principal risks and uncertainties' (pages 58 to 65).

The Board has chosen to conduct its review for a period of **five years** to 31 March 2027. This is a change from the Annual Report 2021 where we performed a three-year review. The Board believe that this is an appropriate timeframe as it aligns with the primary focus of our business and financial planning.

The assessment of viability is based on our medium term plan which forecasts the group's profitability, cash flows and funding requirements, and is approved by the Board at the end of each year. The medium term plan is built from bottom-up forecasts of each of our CFUs, supplemented by items managed at a group level and assumptions such as macroeconomic activity and exchange rates. The performance of the group and our CFUs against these forecasts is monitored monthly and this is supplemented each quarter through a series of quarterly business reviews of each unit conducted by the chief executive and chief financial officer.

Beyond our medium term plan horizon, the group also makes investments that have business cases covering a longer time period, such as our network investments. Significant capital expenditure investment cases are approved by the chief executive and, where appropriate, the Board, after taking into account longer-term risks and opportunities such as the economy, technology and regulation.

Approach

Our medium term plan has been stress tested in a series of individual severe but plausible downside scenarios, each aligned to our group risk categories as set out on pages 58 to 65. This was followed by stress testing our forecasts against a combined scenario of correlated risks using a stochastic model. Finally, we then identified several mitigations that could realistically be taken by the business to avoid or reduce the impact of the underlying risk.

Scenarios included in our combined severe but plausible stress test

Our hypothetical combined downside scenario is based on a continued escalation of the current geopolitical situation in Ukraine and Russia triggering a severe split of the global economy resulting in several major events impacting BT Group:

Scenario	Risk category	Assumption
Prolonged stagflation	Strategy, Technology & Competition, Financing, People	Driven by geopolitical factors and Covid-19 persistence, the UK and global markets experience prolonged stagflation with assumed 0% UK and Global GDP growth and UK inflation remaining above 10% over 5 years. This impacts our planned price increases as well as various impacts on our cost base.
International trade sanction breach	Legal compliance	Despite the controls in place we discover breaches of sanctions imposed by UK, US or EU nations.
China supply chain disruption	Supplier management	Geopolitical uncertainty widens and there is wholesale impact on the China supply chain.
Cyber attack followed by a class action	Cyber security	BT Group falls victim to cyber attacks and experiences major loss of customer data. A class action is subsequently filed against BT Group which requires substantial compensation payments.
Pension deficit	Financing	An increase in BT Group's funding obligations due to a worsening of the BT Pension Scheme (BTPS) deficit caused by a combination of financial market volatility (e.g. fall in BTPS assets) and/or deterioration of BT's covenant to the BTPS (e.g. fall in EBITDA).

We have considered directly relevant mitigations that we would employ if these events occurred and included those impacts in our calculations.

A summation of the full impact of each of the individual scenarios in this stress test would be an extremely unlikely outcome; therefore a stochastic model was used to develop a more realistic combined scenario with a 5% probability.

Result

Applying our severe but plausible combined scenario with related mitigations indicates that BT Group would experience a liquidity shortage commencing in the third year. However, there are further mitigations, including planned debt issuance, that could be applied to reduce this liquidity shortage. We would need to adopt around two-thirds of the mitigations we have identified to maintain positive cash flow over the full five-year period of the assessment.

The mitigations directly in our control primarily revolve around reducing cash outflow from the group. In addition, there are also several mitigations which are outside of our control like raising debt.

The Board believe that it is reasonable to expect that it could continue to access debt capital markets to refinance a portion of our outstanding debt as it falls due, or to renew our undrawn committed facility (which expires in March 2027, before the end of the viability period). If access to debt markets wasn't available, then equity capital markets would be considered as an alternative to raise funds.

Based on the results of this analysis, the directors have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the five-year period of their assessment.

Corporate governance report

We are committed to delivering on our ambition to be the world's most trusted connector of people, devices and machines. We are focused on growing sustainable value for our stakeholders and the communities we operate in, through effective Board leadership, strong corporate governance and building the strongest foundations.

Compliance with the 2018 UK Corporate Governance Code (the Code)

In respect of the year ended 31 March 2022, BT Group plc was subject to the Code, which was published by the Financial Reporting Council (FRC) in July 2018 (available at [frc.org.uk](https://www.frc.org.uk)). BT Group has applied all the principles and complied with all the provisions of the Code throughout the year:

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* Further details on the split of responsibilities of the Board can be found on our website [bt.com/governance](https://www.bt.com/governance)

Chairman's governance letter



I would like to thank my predecessor, Sir Jan du Plessis, for the support and guidance he gave me before I became chairman on 1 December 2021.

The Board recognises the value of having strong corporate governance at the centre of our decision-making on how we generate long-term sustainable value for all our stakeholders, including investors, colleagues, customers, regulators, suppliers, the Government and the communities in which we operate. A key area of focus for the Board is oversight of the execution of our transformation agenda, which seeks to create a simpler, more efficient and dynamic BT Group. Our colleagues and culture are integral to our ability to successfully deliver on this agenda and to the future success of the group. This year we launched 'Being trusted: our code', to guide colleagues into behaving in the right way, supporting our ambition to be the most trusted connector of people, devices and machines.

This corporate governance report sets out our approach to governance and how it supports our strategy, the Board and its committees' key focus areas during the year and the decisions we have made, whilst considering the interests of our stakeholders and our contribution to society.

Board changes

In addition to Jan's retirement from the Board on 30 November 2021, Mike Inglis stepped down from the Board at the conclusion of the 2021 AGM and Leena Nair will step down at the conclusion of the 2022 AGM. I'd like to thank Mike and Leena for their contribution to the Board and to the BT Group. From the conclusion of the 2022 AGM, Sara Weller will succeed Leena as chair of the *Digital Impact & Sustainability Committee*. The primary focus of the *Nominations*

Committee during 2021 has been the search for a new chairman, culminating in my appointment.

As part of ongoing succession planning and in light of the tenure of our longer serving non-executive directors and the changes to the Board over the last few years, I have undertaken a comprehensive review of the Board's composition in line with the group's strategy and the opportunities and challenges we face, to examine how we can strengthen the Board for the future (see [page 86](#)). Reflecting on this review and feedback from the FY22 Board and committee evaluation, it is recognised that we need to enhance the Board's technology and digital capabilities given the group's focus on digital and legacy platform transformation. We are therefore in the process of searching for additional non-executive directors, with at least one director with digital and technology capabilities and transformation expertise. Having a diverse Board, as set out in our Board Diversity and Inclusion Policy, is a priority and therefore, a key element of any search brief.

Diversity and inclusion

The development of a diverse and inclusive organisation is central to our people strategy and is embedded within the inclusive pillar of our Manifesto, which we launched in December 2021. The Board's commitment to diversity and inclusion and the related targets are set out in our Board Diversity and Inclusion Policy (see [page 87](#)). Our Board currently comprises 36% female directors, two directors from an ethnic minority background, and one who has a disability. The Board is cognisant that Leena's departure will reduce the female membership of the Board from 36% to 27%, which is below our own Board Diversity and Inclusion Policy targets.

This will be addressed as part of our search for additional non-executive directors as a priority and in any event within FY23.

Stakeholders

The Board values its engagement with all our key stakeholders, including shareholders, and we continue to ensure that our mechanisms are effective in enabling the continuous flow of information between the Board, senior management and the wider organisation. Details of our engagement with stakeholders during the year and the impact of this engagement on the Board's decision-making process can be found on [pages 36 to 41 and 80 to 81](#) and in our [Section 172 statement](#) on [pages 82 and 83](#).

Since my appointment, I have met with a number of our top investors to gain an understanding of their views.

The first cohort of the *Colleague Board* has strengthened the voice of our colleagues at Board-level and provided the Board with valuable insights into colleague sentiment through Isabel Hudson in her role as the designated non-executive director for workforce engagement. We built on this success and appointed the new cohort of members for their two-year term at the start of 2022 (see [pages 80 and 81](#)).

We have a diverse range of customers with different needs, and meeting these needs effectively is key to our success in delivering on our strategy, ambition and purpose (see [pages 18 and 19](#)). As part of our Board-level oversight of consumer fairness, from April 2021, the Board decided to widen the remit of the *BT Compliance Committee* to monitor how we are living up to the Consumer Fairness principles (see [page 96](#)).

Evaluation

This year, we undertook an internal Board and committee evaluation, the results of which demonstrate that the Board as a whole continues to be effective and seeks to constructively challenge and support management. We have agreed on a set of actions to strengthen how we operate for the future (see [page 84](#)).

I would like to thank my fellow Board members and the *Executive Committee* for their warm welcome and efforts this year.

Adam Crozier
Chairman
11 May 2022

Our governance framework

The Board

Responsible for the stewardship of the group, overseeing its conduct and affairs to deliver on our strategic objectives and creating long-term success to generate sustainable value for our shareholders and the interests of other stakeholders. The Board has established certain committees to assist it in discharging its responsibilities and delegates day-to-day responsibilities to the chief executive.

 Board leadership and company purpose on [page 76 to 79](#)

Audit & Risk Committee

Oversees, assesses and reviews our financial and narrative reporting, internal controls and risk management. This includes internal and external audit and pan-BT finance, control and compliance-related transformation programmes.

 *Audit & Risk Committee chair's report on [pages 89 to 95](#)*

Nominations Committee

Considers the structure, size and composition of the Board and its committees and advises on succession planning for the Board and the *Executive Committee*. It ensures the Board is diverse, with the appropriate balance of skills, experience, independence and knowledge.

 *Nominations Committee chair's report on [pages 86 to 88](#)*

Remuneration Committee

Agrees the remuneration framework for the chairman, executive directors and certain senior executives and monitors remuneration practices and policies for the wider workforce.

 *Remuneration Committee chair's letter and Report on directors' remuneration on [pages 98 to 100](#)*

BT Compliance Committee

Oversees our adherence to the Commitments we made as part of the 2017 Digital Communications Review (DCR) with Ofcom and adherence to consumer fairness principles.

 *BT Compliance Committee chair's report on [page 96](#)*

Digital Impact & Sustainability Committee

Provides oversight and direction to bring the Manifesto to life through our digital impact and sustainability strategy.

 *Digital Impact & Sustainability Committee chair's report on [page 97](#)*

Colleague Board

Discusses and provides advisory feedback on key proposals and initiatives impacting our colleagues and flags any hot topic areas raised by them. Our designated non-executive director for workforce engagement reports back to the Board on its activities.

 *Colleague Board on [pages 80 and 81](#)*

Investigatory Powers Governance Committee

Oversees our role in the use of official investigatory powers.

Chief executive

Responsible for running the business and setting and executing the group strategy.

Executive Committee

Assists the chief executive to develop and execute the group strategy and budget, and monitors overall performance and how we're managing risks.

BT Investment Board

Provides input and recommendations that support the chief executive's decision-making on investment budgets and cases.

Disclosure Committee

Ensures BT Group meets its disclosure obligations and reviews and approves regulatory and other announcements before publication.

 Matters reserved to the Board and its committees' terms of reference can be found on our website at [bt.com/governance](https://www.bt.com/governance)

Each committee chair formally reports to the Board following their meetings and makes any recommendation to the Board in line with that committee's terms of reference. Papers and minutes are circulated to all Board and committee members as appropriate, other than to those with a potential conflict of interest. Deutsche Telekom's nominated representative owes a fiduciary duty to both BT Group and Deutsche Telekom. The *Conflicted Matters Committee* reviews all papers ahead of sharing these with him to identify potential or actual conflicts of interest.

Board of directors and division of responsibilities

Membership key

- Committee chair
- (A) Audit & Risk Committee
- (C) BT Compliance Committee
- (C) Colleague Board
- (D) Digital Impact & Sustainability Committee
- (E) Executive Committee
- (IP) Investigatory Powers Governance Committee
- (N) Nominations Committee
- (R) Remuneration Committee

Our directors share collective responsibility for the activities of the Board. There is a clear division of responsibilities between the chairman and the chief executive as required under the Code. The responsibilities of the chairman, chief executive, chief financial officer and senior independent director and other key roles within BT Group, along with the matters reserved to the Board, are set out on our website at:

 [bt.com/governance](https://www.bt.com/governance)



IP N

Adam Crozier
Chairman

Appointed chairman in December 2021 and to the Board and as chairman designate in November 2021.

Age: 58

Experience

Adam was previously chairman of ASOS, Stage Entertainment BV and Vue International Cinema Group, and a non-executive director of Sony Corporation. He has had over 20 years' experience as a CEO across four different industries, most recently as the CEO of ITV from 2010 to 2017. Before joining ITV, Adam was chief executive of Royal Mail, where over seven years he led its modernisation and transformation. Prior to Royal Mail he was CEO of the Football Association between 2000 and 2002 and Joint CEO of Saatchi & Saatchi from 1995 to 2000.

Relevant skills and contribution to the Board

Significant experience in leading public company boards, developing teams and managing stakeholders and brings a strong transformational and operational track record in large-scale executive roles. He has also built a strong track record in turning around troubled organisations and in building and leading successful management teams.

External appointments

Chairman of Whitbread and Kantar Group.



C E IP

Philip Jansen
Chief executive

Appointed chief executive in February 2019 and to the Board in January 2019.

Age: 55

Experience

From April 2013 until joining BT Group, Philip was CEO of Worldpay. Before that he was CEO and then chairman at Brakes Group between 2010 and 2015. Philip spent the previous six years at Sodexo where he was group chief executive, Europe, South Africa and India. Prior to that he was chief operating officer at MyTravel Group from 2002 to 2004 and managing director of Telewest Communications (now Virgin Media 02) from 2000 to 2002 after initially starting his career at Procter & Gamble.

Relevant skills and contribution to the Board

Extensive experience of leading and growing large private and publicly listed UK and international businesses, delivering transformational change and large technology programmes.

External appointments

Senior advisor at Bain Capital and trustee of Wellbeing of Women.



E

Simon Lowth
Chief financial officer

Appointed chief financial officer and to the Board in July 2016.

Age: 60

Experience

Simon was CFO of BG Group before its takeover by Royal Dutch Shell in February 2016. Prior to that, he was CFO of AstraZeneca from 2007 to 2013. He was an executive director of ScottishPower from 2003 to 2007 having been appointed as the finance director in 2005. Before 2003, Simon was a director of McKinsey & Company.

Relevant skills and contribution to the Board

A strong background in finance, accounting, risk, corporate strategy and mergers and acquisitions. Simon has experience and a track record of implementing cost transformation and performance improvement programmes.

External appointments

None.



C C D N R

Isabel Hudson
Independent non-executive director and designated non-executive director for workforce engagement

Appointed to the Board in November 2014.

Age: 62

Experience

Isabel was previously non-executive chair of National House Building Council until May 2020. She was also previously senior independent director of RSA Insurance, non-executive director of The Pensions Regulator, MGM Advantage, QBE Insurance, Standard Life and an executive director of Prudential Assurance Company in the UK.

Relevant skills and contribution to the Board

A wealth of experience in financial services, in the life, non-life and pensions industries as well as risk, control, governance and international business. Insight and expertise in regulatory, pensions and financial matters.

External appointments

Non-executive director and chair of the audit committee of Axa S.A. and an ambassador for the disability charity, SCOPE.



A N R

Matthew Key
Independent non-executive director

Appointed to the Board in October 2018.

Age: 59

Experience

Matthew held various positions at Telefónica from 2007 to 2014 including as chairman and CEO of Telefónica Europe and chairman and CEO of Telefónica Digital. From 2002 to 2004 he was the CFO, strategy and regulation director of O2 UK before becoming CEO in 2004. Matthew previously served as finance director at Vodafone UK and chairman of Tesco Mobile. He has previously held positions at companies including Kingfisher, Coca-Cola and Schweppes Beverages, Grand Metropolitan and Dallaglio Rugbyworks.

Relevant skills and contribution to the Board

Strong strategic skills and a wealth of experience in finance and the telecoms sector.

External appointments

Non-executive director and audit committee chair of Burberry.



A C N

Allison Kirkby
Independent non-executive director

Appointed to the Board in March 2019.

Age: 54

Experience

Allison was appointed President & CEO of Telia Company in May 2020. She was previously President & Group CEO of TDC Group until October 2019, and President & Group CEO of Tele2 AB from 2015 to 2018, having been Tele2 AB's Group CFO from 2014. She was chair of the audit committee and a non-executive director of Greggs until May 2019. She has also held financial and operational roles within 21st Century Fox, Virgin Media, Procter & Gamble and Guinness.

Relevant skills and contribution to the Board

Strong and recent experience in finance and the international telecoms and media sector, combined with strong experience in driving performance, improving customer service and delivering shareholder value.

External appointments

President & CEO of Telia Company.



N

Adel Al-Saleh
Non-independent,
non-executive director

Appointed to the Board in May 2020.
Age: 58

Experience

Adel has been chief executive officer of T-Systems International GmbH (a subsidiary of Deutsche Telekom AG) since 2018 and is a member of the Management Board of Deutsche Telekom AG. Adel was chief executive officer of Northgate Information Solutions from 2011 to 2017, and before that held a variety of posts at both IMS Health (now IQVIA) and IBM.

Relevant skills and contribution to the Board

Significant experience in managing global technology companies, enterprise transformation and digitalisation.

External appointments

Member of the Boston University, College of Engineering Advisory Board.



A C N R

Sir Ian Cheshire
Independent non-executive director

Appointed to the Board in March 2020.
Age: 62

Experience

Ian was chairman of Barclays Bank UK until December 2020 and a non-executive director of Barclays until May 2021. Ian was also previously group chief executive of Kingfisher and senior independent director and remuneration committee chair of Whitbread. Ian held a variety of posts whilst at Kingfisher from 1998 to 2014, including chief executive of B&Q from 2005 to 2008 and group chief executive from 2008 to 2014. He was also previously the chairman of Debenhams and the lead non-executive director for HM Government and former chairman of the Corporate Leaders Group on Climate Change.

Relevant skills and contribution to the Board

A wealth of listed company experience, with a notable background in strategy, international retail and eCommerce.

External appointments

Chairman of Channel 4 and Spire Healthcare Group. Also chairman of Menhaden Resource Efficiency, a UK investment trust.



A IP N R

Iain Conn
Senior independent
non-executive director

Appointed to the Board in June 2014.
Age: 59

Experience

Iain was group chief executive of Centrica for over five years from 2015 to 2020. Prior to that, Iain spent 29 years at BP and was a board director for ten years from 2004 to 2014 including as chief executive Downstream from 2007 to 2014, and a member of the executive committee from 2002 to 2014. Until May 2014, Iain was a non-executive director of Rolls-Royce for nine years and senior independent director. Iain also served as a member of Council of the Imperial College from 2010 to 2019 and was chairman of the advisory board of the Imperial College Business School from 2004 to 2020.

Relevant skills and contribution to the Board

Deep experience in the global energy markets, industrial operations, regulated consumer markets, and in finance, technology and engineering. Broad international experience.

External appointments

Senior adviser to Blackstone on energy, infrastructure and sustainability and to the Boston Consulting Group. Adviser to Oxford Sciences Enterprises. Advisory Board member of Columbia University Center on Global Energy Policy.



D N R

Leena Nair
Independent non-executive director

Appointed to the Board in July 2019.
Age: 52

Experience

Leena was appointed Global CEO of Chanel in January 2022. She was previously chief human resources officer at Unilever from 2016 to 2022, where she was responsible for Unilever's global people agenda, working across 160 markets to help deliver Unilever's business financial performance as well as its environmental and social impact objectives. Leena joined Unilever in 1992 and has held a wide variety of HR roles throughout her career, including senior vice president for leadership and organisational development and global head of diversity, executive director of Hindustan Unilever and vice president HR South Asia. Leena was previously a non-executive director at the Department for Business, Energy and Industrial Strategy until December 2020.

Relevant skills and contribution to the Board

A deep understanding of the strategic and practical challenges of driving large-scale cultural transformation.

External appointments

Global CEO of Chanel.



A C D N

Sara Weller
Independent non-executive director

Appointed to the Board in July 2020.
Age: 60

Experience

Sara's previous roles include managing director of Argos and various senior positions at J Sainsbury, including deputy managing director and serving on its board between 2002 and 2004. Sara was a non-executive director of Lloyds Banking Group until May 2021 and United Utilities Group until July 2020. She was also the lead non-executive director at the Department for Work and Pensions until April 2020. She has also previously been a non-executive director of Mitchells & Butlers and held senior management roles at Abbey National and Mars Confectionery.

Relevant skills and contribution to the Board

A broad perspective coming from a background in retail, fast moving consumer goods and financial services, as well as strong board experience at both executive and non-executive level.

External appointments

None.



Sabine Chalmers
General counsel,
company secretary & director
regulatory affairs

Sabine joined BT Group in April 2018 as general counsel and was appointed as company secretary in September 2021.

See page 9 for Sabine's full biography.

Board leadership and company purpose

Role of the Board

The Board is responsible for establishing the group's purpose, values, strategy and culture, and for setting the tone at the top. The Board ensures that our culture is aligned with the group's purpose, values and strategy.

 Further details on our purpose, values and strategy are on [pages 18 and 19](#)

The Board monitors the indicators of our culture through:

- discussions with the chief executive
- reports from the HR director, including progress on our people and cultural dashboard
- insights from our annual Your Say colleague engagement survey
- direct feedback and insights from our *Colleague Board* via our designated non-executive director for workforce engagement.

More information on the *Colleague Board* and how the Board is kept informed of colleague perspectives and the culture of the organisation can be found on [pages 80 and 81](#), and in the **Strategic report** on [page 36](#).

The Board also maintains oversight of the group's operations, performance and governance and compliance with statutory and regulatory obligations. It determines the group's risk appetite, ensures that we have robust systems of risk management and internal controls in place, and is responsible for ensuring that the group has an effective leadership team to efficiently execute the group's strategy.

A number of key decisions and matters are reserved for the Board and are not delegated to any of the committees, the chief executive or management. These are set out in the matters reserved to the Board and are available on our website:

 [bt.com/governance](https://www.bt.com/governance)

Meetings and attendance

We held nine scheduled Board meetings and two strategy meetings in FY22. The chairman (or his predecessor) also held private sessions with the non-executive directors during the year. The company secretary or her nominated delegate is secretary to the Board, and they attend all meetings and provide advice, guidance and support as required.

Board and committee members are provided with papers in advance of each meeting on a secure electronic portal. Directors are expected to attend Board and relevant committee meetings of which they are a member, unless prevented by prior commitments, illness or a conflict of interest. If a director is unable to attend a meeting, they usually give their comments to the chairman or the committee chair in advance so that these can be duly considered as part of the discussion at the meeting.

As a result of the continuing Covid-19 pandemic, some Board and committee meetings during the year were held remotely by video conference or took place as hybrid meetings. These meetings were organised to allow us to maintain constructive levels of engagement and discussion, to challenge management and have robust debates as part of decision-making.

In light of changing restrictions, the Board was able to resume pre-Board dinners as part of informal interactions and also had the opportunity to meet colleagues across different levels of the organisation during its offsite visit to our Birmingham Snowhill office in September 2021.

	Meetings attended
Adam Crozier (chairman) ^a	4/4
Jan du Plessis (previous chairman) ^b	6/6
Philip Jansen	9/9
Simon Lowth	9/9
Adel Al-Saleh	9/9
Ian Cheshire	9/9
Iain Conn	9/9
Isabel Hudson ^c	8/9
Mike Inglis ^d	3/3
Matthew Key	9/9
Allison Kirkby	9/9
Leena Nair ^e	7/9
Sara Weller ^f	8/9

a Adam joined the Board as a non-executive director and chairman designate on 1 November 2021 and became chairman on 1 December 2021.

b Jan stepped down from the Board as chairman and a director on 30 November 2021.

c Isabel gave apologies for one meeting during the year due to other business commitments.

d Mike stepped down from the Board at the conclusion of the AGM on 15 July 2021.

e Leena gave apologies for two meetings during the year due to other business commitments.

f Sara gave apologies for one meeting during the year due to illness.

Section 172 statement and stakeholders

The **Board focus in FY22** section set out on the following pages includes our **Section 172 statement** on [pages 82 and 83](#).

Our **Section 172 statement** demonstrates our directors' regard to the matters in section 172 of the Companies Act 2006 (2006 Act) in performing their duties.

See the **Strategic report** on [pages 36 to 41](#) for additional details of how we engage with our key stakeholders.

The Board and each of its committees always have regard to wider stakeholder interests including and beyond those of our shareholders as part of discussions and decision-making. On behalf of the Board, the *Audit & Risk Committee* discussed our key stakeholder groups including their expectations, our engagement and the risks associated with managing these relationships as part of reviewing the stakeholder management group risk category (GRC). The committee considered engagement with our key stakeholder groups in light of broader developments in the emerging risk landscape and new technologies.

For details of how our directors have engaged with our colleagues during the year, and how they have had regard to their interests and the need to foster business relationships with suppliers, customers and others, together with a summary including the Board's principal decisions, see [pages 36 to 41 and 80 to 83](#).

Board focus in FY22



Group strategy

During the year, the Board:

approved strategic initiatives and items of significant strategic importance in line with the matters reserved to the Board including:

- the 50:50 joint venture company with Warner Bros. Discovery, Inc. to create a new premium sport offering for the UK & Ireland bringing together the sports content offering of BT Sport and Eurosport UK (see [page 31](#))



- a new longer-term reciprocal channel supply deal with Sky beyond 2030
- the increase and acceleration of our FTTP build target by an additional 5m from 20m to 25m premises by December 2026, to be self-funded by BT Group (see [page 21](#))
- an outsourcing and partnering arrangement with Rackspace Technology, Inc. (see [page 29](#))

- BT Group's brand strategy, including that EE would be our flagship brand for Consumer customers, focusing on convergence and future services, and that BT would be the flagship brand for our Enterprise and Global units, continuing its pivotal role in helping businesses of all sizes unlock their potential through embracing digital technologies.

held two full-day strategy meetings where it considered with management:

- the group's strategy and long-term growth opportunities
- strategic priorities and how these are built into the group's medium-term plan
- progress on key initiatives
- key challenges and risks to delivering our priorities and plans to address or mitigate these.

received and discussed the chief executive's report at each meeting, which focused on:

- the group's overall performance and operations
- progress against our strategic pillars and priorities
- the competitive and regulatory environment that the group is operating in
- engagement with, and the views of, our stakeholders including our investors, our colleagues, Ofcom and Government
- key business operations including matters which are important to the group's reputation, as well as colleague, customer, supplier and community considerations.

Performance and execution of strategy



During the year, the Board discussed, reviewed and, as appropriate, approved:

- the financial statements at full and half year and trading updates at each quarter, including any external guidance. It also discussed the feedback from investor meetings, including those post-publication of each set of results. At each meeting, the Board reviewed the current financial and trading performance for the period against budget and consensus, and the full year outlook for the group as a whole and for each unit
- the going concern and viability statements and the group's tax strategy
- reports, on a monthly basis, outlining share register movement, our share price performance relative to the market, investor relations activities and engagement with shareholders. The Board also spent time discussing the changing nature of our shareholder register
- the triennial valuation agreement as at 30 June 2020 for the BTPS which included a new deficit repair plan
- the dividend policy for FY22 and the reinstated interim and final dividend in line with this, having considered the BT Pension Scheme (BTPS) and requirements under new pension legislation
- the medium-term plan, having considered the main opportunities and challenges, our strategic priorities and KPIs
- the delivery of the group's transformation programmes against the objectives to drive pan-BT efficiencies, opportunities, continued cost reduction and our plan to reskill colleagues with the skills required for the future needs of the business
- customer experience for each CFU and the continued improvements across our group and individual brand and customer segment NPS, in particular the progress against our related ambitions. As part of this, the Board was updated on the initiatives and customer insights used to drive improvement for our customers. Further details on customer experience can be found on [pages 26 to 29](#)
- any regulatory/competition investigations and litigation claims, including our response and the stakeholder and reputational impact of these.

Board leadership and company purpose continued

Board focus in FY22 continued



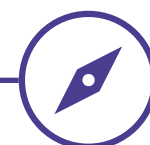
People and culture agenda

During the year, the Board discussed:

- the progress made against our people and cultural strategy. Our ambition is to build a culture where people can be their best and make BT Group a brilliant place to work. To deliver this, our people strategy focuses on key strategic goals. During the year, the Board monitored delivery against our cultural ambition and the related goals through the people and cultural dashboard with the group HR director and her team. Each of the committees also monitored areas within their remit that are important indicators of the group's culture, on which the Board is updated by the committee chairs. For example, the *Audit & Risk Committee* discussed the behaviours and expectations that drive risk awareness through our business activities and ethics and compliance updates (see [pages 92 and 93](#))
- the health, safety and wellbeing of our colleagues, including those in Openreach, with updates on the measures and systems designed to mitigate against incidents, as well as our continued compliance with Covid-19 measures. Colleague wellbeing has been a key consideration of our continued efforts to transform our workplaces. Discussions were held at both the Board and the *Audit & Risk Committee* on our safety culture and behaviours, in particular at Openreach, given the increased risks in relation to the complexity of the fibre build
- diversity and inclusion, including attracting, recruiting, promoting and retaining women, people from ethnic minority backgrounds and people with disabilities (see [pages 24 and 25](#) for more details on our approach to diversity and inclusion)
- employee relations matters, including engagement with trade unions. Broader workforce remuneration was also discussed by the *Remuneration Committee*
- the feedback shared by Isabel Hudson as the designated non-executive director for workforce engagement on colleague views and discussions at the formal meetings and informal check-ins with the *Colleague Board*.



Risks, controls and governance



During the year, the Board discussed:

- the group risk management framework twice, with in-depth discussions on certain GRCs, including the point and emerging risks and uncertainties facing the group and our risk appetite for each (see [pages 55 to 65](#)). The Board also received regular updates from the *Audit & Risk Committee*, who undertakes detailed reviews of the group's risk management and internal controls systems, including key controls and their effectiveness (see [page 92](#)), as well as GRCs not discussed by the Board
- our approach to the Russian invasion of Ukraine, especially its impact on our stakeholders and any directly or indirectly affected colleagues, as well as operational and reputational considerations, key risks and mitigations. The Board continues to keep our approach under review
- the format for the 2021 AGM. To enable shareholders to engage with the Board at the AGM, despite the ongoing Covid-19 pandemic and broader public health considerations, a hybrid meeting was held with shareholders being strongly encouraged to attend the AGM electronically and the meeting broadcast via a live webcast. Shareholders were able to pre-register their questions ahead of the meeting or ask questions through the electronic platform during the AGM itself. Building on the success of the 2021 AGM, we will once again be holding a hybrid meeting for the 2022 AGM (see the Notice of meeting at bt.com/agm for further details)
- the Annual Report, which was subsequently approved on the recommendation of the *Audit & Risk Committee* (see [page 90](#)), on the basis that, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to accurately assess the group's position and performance, business model and strategy
- the themes and actions agreed as a result of the internal Board and committee evaluation (see [page 84](#)).

Board visit to Birmingham Snowhill office



We held our Board and committee meetings in September 2021 at our new building, Birmingham Snowhill. This provided the Board with an opportunity to visit another office and meet with a number of our colleagues.

The Board received an informal presentation from key members of the team engaged in workplace transformation, on the progress to date and the specific features of our new offices, including the environmental and sustainability features (see **pages 25 and 35**). The Board discussed progress with the team, including any adjustments to the plan that had been made as a result of the Covid-19 pandemic and the resulting new ways of working. It was highlighted that the programme has had input from colleagues across the organisation, including:

- *Executive Committee* members on decision-making, updates on the programme and cultural direction
- *Colleague Board* members on the programme vision and helping to shape the key measures of success
- senior leaders on the delivery of key milestones and supporting other colleagues
- colleagues who would be based in the new offices to whom updates were provided and to drive up interest and excitement
- our People Networks, with a focus on building facilities and providing accessibility for colleagues of diverse backgrounds and needs.

“Meet the Board” engagement session

The Board also had the opportunity to spend time with a variety of colleagues in small group tours of the new building to showcase the facilities led by the dedicated building host teams and Digital tech specialists, and a “Meet the Board” informal engagement session with colleagues from across all business units and *Colleague Board* members based in the Midlands. This provided the Board with the opportunity to understand first-hand the views of our colleagues on the new workspaces and the culture of the office, as well as to more broadly get a feel for current colleague sentiment. Colleagues remarked that they felt that the new workplaces encourage collaborative ways of working and modern technology enables colleagues to connect across the UK and globally, optimising ways of working regardless of location.



Board leadership and company purpose continued

The Colleague Board and Board engagement with colleagues



Colleague Board

Who is the Colleague Board

The *Colleague Board* continues to be the Board's chosen workforce engagement mechanism under the Code. We feel this is the most effective option for the BT Group, given the structure of the business. Its aim is to bring colleagues from across the group closer to the decision-making process by providing the Board with an invaluable, direct insight into colleague sentiment and feedback on key initiatives, programmes and communications to help shape them to be more beneficial for our colleagues.

The *Colleague Board* is chaired by the chief executive, and Isabel Hudson, our designated non-executive director for workforce engagement, is a member. Isabel was selected for this role due to her breadth of understanding of, and interest in, employee and wider stakeholder matters.

Sabine Chalmers, general counsel, company secretary & director regulatory affairs, and Debbie White, HR director, are also invited and attend all formal meetings. Other members of the *Executive Committee* attend meetings on a rotational basis. The deputy company secretary is secretary to the *Colleague Board* and she or her delegate attends all meetings and provides support, guidance and advice as required. The chairman and other non-executive directors are also able to attend meetings as observers.

“

Being part of the *Colleague Board* has provided me with a unique insight into the culture of the organisation and how colleagues are feeling, which the first cohort of members shared candidly. Sharing these perspectives with the Board as part of its own deliberations has been invaluable. I am excited about working with the new members – we have got off to a great start with a highly engaging first meeting!”

Isabel Hudson, designated non-executive director for workforce engagement and a member of the *Colleague Board*

New Colleague Board members: appointment process

The first cohort of *Colleague Board* members finished their two-year tenure at the end of 2021. Subsequently, we ran an application process to select the new *Colleague Board* members/invitees. In line with the previous appointment process, all BT Group and Openreach colleagues could apply to join the *Colleague Board*.



Applicants were required to submit:

- a manifesto and a summary of why they wanted to be on the *Colleague Board*
- the topics they felt the *Colleague Board* should be prioritising for discussion
- endorsement from at least ten colleagues.



A shortlist of candidates were interviewed and asked to produce video answers to a couple of questions. Openreach's shortlist was provided by Openreach.



The *Colleague Board Nominations Committee* comprising Philip Jansen, Isabel Hudson, Sara Weller, Sabine Chalmers and Debbie White decided on the final members, with representatives from different levels, across the CFUs, TUs and CUs, and the two invitees from Openreach. We were keen to ensure that the *Colleague Board* reflects our diversity and inclusion aspirations, and it is positive that the members comprise a variety of backgrounds, experience, gender, disabilities, ethnicities, locations and frontline versus corporate colleagues.

The new *Colleague Board* members will serve a two-year term up to the end of 2023.

“

Despite the challenges of the Covid-19 pandemic throughout their tenure, the *Colleague Board* adapted rapidly and embraced new ways of working. I'd like to thank them for their brilliant collaboration and success in ensuring colleagues' views were heard loud and clear. I am very much looking forward to working with the new cohort of members in the coming year and continuing to give the voices of our colleagues a direct channel to my executive team and the Board.”

Philip Jansen, chief executive and chair of the *Colleague Board*

Colleague engagement with the Board

At each formal meeting of the *Colleague Board*, management and/or the Board (via Isabel Hudson) have the opportunity to discuss areas that they would like the *Colleague Board* members' perspectives on, as well as the members advising on Hot Topics raised by colleagues that they feel should be brought to the attention of the Board and/or management. Isabel reports back to the Board and its committees, as appropriate, on discussions with the *Colleague Board*. The meeting materials and notes are also made available to the full Board. Isabel also spent time engaging with the members outside of the formal meetings during the year, and was invited to, and attended, members' team meetings.

Whilst the *Colleague Board* is the Board's formal chosen workforce engagement method, it is used alongside other colleague engagement mechanisms by the Board. Directors liaise with colleagues outside of Board and committee meetings through visits to other offices and sites (see [page 79](#) for the “Meet the Board” engagement session in Birmingham). The chief executive also holds quarterly PJ Live events which provide all colleagues the opportunity to ask the chief executive questions on any subject in an informal forum. See [page 36](#) for more information on how we engage with colleagues.

Colleague Board communications with our colleagues

Colleague Board members feedback on the discussions from the formal meetings to the wider workforce, as well as highlighting points at *Colleague Board* meetings that have been raised by other colleagues. Members are encouraged to connect with other internal engagement channels including the People Networks and accessing the Your Say engagement survey results to gain an increased understanding of the views of our colleagues on key issues. The chief executive also invites *Colleague Board* members to join his senior management calls.

“

I believe there are big things coming in the future for BT Group, which can only be bigger and better when we listen to the voice of our people. I want to be an enabler for making that happen.”

Emma Lee, current *Colleague Board* member

Each *Colleague Board* member is supported by their respective unit internal communications team, enabling a good rapport to be built in-unit. The director of internal communications attends *Colleague Board* meetings and members are encouraged to give their views on key internal communications.

Colleague Board focus in FY22

The *Colleague Board* held four formal meetings this year and a number of informal sessions with internal teams. Through both the Board and the senior leadership team, the *Colleague Board's* views were sought on pan-BT programmes (including how they align with our values and culture) and how we communicate these with our colleagues. The *Colleague Board* has continued to successfully contribute to, and shape, some of our key initiatives this year, by sharing their different views and perspectives.

“

The best thing about being a *Colleague Board* member is collaborating with colleagues across all the different units and sharing their insights at the meetings.”

Steve Tucker, *Colleague Board* member, 2020/21

The *Colleague Board's* highlights this year include:

- helping the Board to understand the perspectives of our colleagues on a range of different topics, including the progress of our digital transformation and diversity and inclusion initiatives, and the communications and support available for colleagues throughout the pandemic. The members participated in two-way discussions, sharing their own views to help refine approaches
- working closely with the HR director and her team to identify improvements to our recruitment assessor inclusion champion training, including delivering an interactive session on unconscious bias
- providing input on our communications engagement plan in relation to ‘Being trusted: our code’ (see [page 18](#)), ahead of its launch to help embed this throughout the organisation
- providing views on the Manifesto ahead of its launch in December 2021, including how this could be used to engage and inspire our colleagues to bring it to life (see [pages 32 to 35](#))
- providing views on our approach to hybrid working and the return to workplaces, by sharing their own experiences and suggestions for how we could successfully transition to our new smart working model.

The first cohort also spent time towards the end of their tenure reflecting on the effectiveness of the *Colleague Board* over its first two years. The feedback has been used to make improvements to strengthen it for the next cohort.

Section 172 statement

In their discussions and decisions during FY22, the directors of BT Group plc have acted in the way that they consider, in good faith, would be most likely to promote the success of the group for the benefit of its members as a whole (having regard to stakeholders and the matters set out in sub-sections 172(1)(a)–(f) of the 2006 Act).

The Board considers the matters set out in section 172 of the 2006 Act in all its discussions and decision-making, including:

The likely consequence of any decision in the long term:

The directors recognise that the decisions they make today will affect the group's long-term success. During the year, the Board had particular regard to the long-term success of the group in its discussions on group strategy (see [page 77](#)). Our purpose and strategy demonstrate how we will realise our ambition and grow value for all our stakeholders. This in turn guides the Board's decisions, specifically the balance between short and long-term investments. The third pillar of our strategy (lead the way to a bright, sustainable future) incorporates our aim to identify and develop new business opportunities that will help us grow sustainably in the future. More information on our strategy can be found from [pages 18 and 19](#).

The impact of the group's operations on the community and environment:

The *Digital Impact & Sustainability Committee* reviewed and endorsed the Manifesto for a bright, sustainable future, which aims to accelerate growth through technology that's responsible, inclusive and sustainable, ensuring the group can continue to build trust and create value for its stakeholders. The committee also monitors progress on the digital impact and sustainability strategy and oversees the progress of our related goals, including those in respect of climate and the environment. In line with the ambitions we have in this area, the committee approved the acceleration of BT Group's net zero target for its own operations from 2045 to the end of March 2031 and a new net zero target for supply chain and customer emissions to be achieved by the end of March 2041.

For more information on this see [page 45](#).

Information as to how we have addressed the recommendations of the TCFD framework can be found on [pages 66 to 69](#).

The desirability to maintain a reputation for high standards of business conduct:

The Board acknowledges its responsibility for setting and monitoring the culture, values and reputation of the group. Our colleagues are central to us achieving our ambition and we are building a culture where our colleagues can be their best. During the year, the Board considered the group's culture in its decision-making and discussions; further details on this can be found on [pages 76 and 78](#).

During the year, we launched 'Being trusted: our code' which sets out the principles of how we expect our colleagues, and anyone who represents or works with the group, to behave, do business and connect for good. It demonstrates our commitment to high standards of business conduct, directly links with BT Group's purpose: we connect for good, and aims to support our ambition to be the world's most trusted connector of people, devices and machines. It provides a guide to ensure colleagues live up to our values, set highest standards, meet legal and regulatory obligations, create the fairest environment, and welcome, respect and hear diverse opinions. The new code was discussed with the *Audit & Risk Committee* ahead of launch.



Information on 'Being trusted: our code' can be found on [page 18](#) and at bt.com/ethics

The *Audit & Risk Committee* also considered regular reports from the ethics and compliance director on our ethics and compliance policies and programmes and reports on issues raised through Speak Up, BT Group's confidential, whistleblowing hotline (see [page 93](#)).

The interests of our colleagues, and the need to foster business relationships with our key stakeholders:

The Board and its committees understand the strategic importance of stakeholders to our business. When making decisions, the directors have regard to the interests of colleagues, and the need to foster business relationships with other key stakeholders. We acknowledge that not every decision we make will necessarily result in a positive outcome for all our stakeholders, so the Board must balance competing interests in reaching its decisions.

While the Board engages directly with stakeholders on some issues, the size and distribution of the BT Group and our stakeholder groups means that stakeholder engagement often happens below Board-level. However, the Board considers information from across the organisation to help it understand how our operations affect our stakeholders' interests and views.



More details on how we engage with key stakeholders (including customers and suppliers) on [pages 36 to 41](#).

Our colleagues are key to our success, and they are always considered as part of the Board's discussions and decision-making. The Board and its committees have considered colleague wellbeing, our diversity and inclusion ambitions, organisational culture and the impact of our transformation programme on them, as well as on employee relations (see [page 78](#) for more details). The Board engages with colleagues primarily through the *Colleague Board* and through our designated non-executive director for workforce engagement (see [pages 80 and 81](#)). In this role, Isabel provides feedback after each formal *Colleague Board* meeting and also discusses any topics raised by members at relevant Board and committee meetings.



Other colleague engagement channels are set out on [page 36](#).

The need to act fairly as between BT Group's shareholders:

During FY22, the chairman, chief executive, chief financial officer, other executives and the investor relations team held various meetings with investors (see [page 38](#) for more detail on our engagement with shareholders). These meetings gave

investors the opportunity to discuss views on financial and operational performance, capital investment, pensions, capital allocation policy and environmental, social and governance matters. The Board is mindful of having two significant shareholders but considers any decisions it makes in the interests of all shareholders.

Decisions made during the year

The following are some of the decisions made by the Board this year which demonstrate how section 172 matters have been taken into account as part of Board discussions and decision-making:

Decision	What happened
50:50 joint venture company with Warner Bros. Discovery, Inc. bringing together the sports content offering of both BT Sport and Eurosport UK	In line with our announcement in April 2021 and in light of our broader strategy, the Board with management considered a number of different options for the future of BT Sport, and the key opportunities and risks of each of these, as well as the financial implications and the impact on key stakeholders, including our customers, investors and colleagues. As part of this, it also explored a number of strategic partners during the year, to consider ways to generate investment and strengthen our sports business, to help take it to the next stage in its growth. Accordingly, the Board recognised the benefits that a 50:50 joint venture company with Warner Bros. Discovery, Inc., bringing together the sports content offering of both BT Sport and Eurosport UK, would bring for our BT Sport customers who would get access to Discovery's sport and entertainment content, including the discovery+ app. In May 2022, the Board approved the 50:50 joint venture with Warner Bros. Discovery, Inc., bringing together the sports content offering of both BT Sport and Eurosport UK.
BT Pension Scheme (BTPS) triennial valuation	The Board was kept updated on discussions with the BTPS Trustee on the triennial valuation as at 30 June 2020 and considered the possible range of valuation outcomes and different approaches to future contribution and investment strategy. The Board reviewed potential outcomes in the context of our overall business objectives and both the current and expected future regulatory and legislative environment. The Board considered the expected deficit, associated deficit recovery payments and details of how the previously endorsed asset-backed finance structure and co-investment vehicle arrangements are expected to be used, and the impact of this on our stakeholders. The Board considered the upside benefits of the valuation package for our shareholders, the BTPS Trustee and its members (current and previous colleagues), as well as guidance from the Pensions Regulator. In May 2021, the Board approved the overall valuation agreement, after considering the impact on its key stakeholders including colleagues that are members of the BTPS. The agreement included a deficit repair plan, asset-backed funding and a new "stabiliser" mechanism. The stabiliser mechanism reduces the risk of future trapped surplus and provides more certainty that the BTPS will achieve its path to full funding by clarifying how future increased deficits would be funded. This provides an enduring solution for the group and the BTPS, enabling the group's transformation and investment programmes and helping to protect the BTPS as it progresses towards a low risk, long-term investment strategy.
Outsourcing and partnering arrangement with Rackspace Technology, Inc.	The Board considered the proposal to enter into an outsourcing and partnering arrangement with Rackspace Technology, Inc. The benefits and the risks of the arrangement within the context of the hybrid cloud market and alignment with our broader strategy and transformation plans were discussed. In approving the decision, the Board also reviewed the impact of the proposed arrangement on colleagues, customers, communities and shareholders, as well as on our key financial metrics. It recognised that this would offer enhanced capabilities, products and expertise to meet our customers' business needs, as well as providing an improved digital experience for them. It was also noted that it would deliver substantial cost benefits, digital growth and an enhanced digitally managed services portfolio.
Funding of our increased and accelerated FTTP build plan from 20m to 25m premises by December 2026	Over the last few years, the Board has held a number of in-depth discussions with management on the level and pace of our full fibre build and the advantages and disadvantages of accelerating this with a particular focus on our ability to fund the related large capital expenditure investment, the regulatory framework and the impact of this on our stakeholders. In 2020, the Board approved the increase of our FTTP build to 20m premises, subject to the required critical enablers. The regulatory clarity provided by Ofcom's Wholesale Fixed Telecoms Market Review (WFTMR) published in March 2021, coupled with the Government's announced cash tax super-deduction in the same month and the positive outcome from the 5G spectrum auction, meant that having considered the capital expenditure required, the risks involved and impact to our medium term plan, in May 2021, the Board further approved an increased and accelerated FTTP build to 25m premises by the end of December 2026. In making this decision, the Board considered the impact on our stakeholders, which included the benefits to our customers, colleagues and shareholders, as well as the impact on the BTPS, our credit rating and subsequent impact on our bond holders, and the desire to support the UK Government's fibre ambitions and our own purpose, we connect for good. For the additional 5m build, the Board agreed to consider whether this should be built entirely from internal resources or funded through a joint venture with a third party. In November 2021, having considered a number of factors including the further reduction in the FTTP build costs by Openreach, take-up being ahead of expectations, and the impact on our stakeholders, in particular our shareholders who would retain 100% of the ownership and accordingly the returns, the Board decided that the BT Group should fund the full 25m FTTP build itself.

Board composition, succession and evaluation

FY22 Board and committee evaluation

In line with the Code, we annually undertake a formal and rigorous evaluation of the performance of the Board and its committees, the chairman and individual directors, which considers the Board's composition, diversity and effectiveness. Given an external evaluation was completed in FY21, we undertook an internal evaluation in FY22.

Process

Tailored questionnaires were circulated to members and attendees of the Board and each of its committees. The evaluations focused on composition, succession and how well-placed the Board is to add value to the business, in terms of how it oversees strategy, risk management, people, culture and performance. Focus was also given to the Board's decision-making processes, as well as how well it considers stakeholders as part of its decisions and discussions.

Given the recent appointment of the chairman, he held individual discussions with each director to understand their views on the workings of the Board and *Executive Committee*, their relationship with management, the organisation and how effectively they feel they are contributing and are supported as individual directors. The senior independent director undertook a discussion with the full Board (without the chairman) and the company secretary on initial views of the new chairman. The non-executive directors also reviewed the performance of the chief executive during the year.

Agreed areas of focus and actions

Overall, the Board and its committees are considered to be effective. There were certain areas of focus which the Board felt would continue to improve its performance and effectiveness. Accordingly, the directors agreed on the following areas of focus and action for FY23; progress shall be reviewed by the Board and/or its committees as appropriate during the year, with any ongoing areas feeding into next year's evaluation process.

Key areas of focus	Agreed actions
Board and committee agenda and time	Review how the Board and its committees can spend their time more effectively with a specific focus on the execution of our transformation programme and priorities, in particular in relation to pan-BT programmes.
Stakeholder focus	Consider how we can increase the entire Board's understanding of the views of all our stakeholders.
People strategy and culture	Increase the time that the Board spends discussing our people/HR strategy with a specific focus on organisational talent and succession planning and how this underpins the transformation agenda. Develop a better understanding of the key measures and deliverables in relation to culture.
Board composition	The <i>Nominations Committee</i> , on behalf of the Board, will carry out a comprehensive review of the skills, experience and diversity needed on the Board to best support management in executing the strategy of the business and ensure effective succession planning. It is recognised that we need to enhance the Board's technology and digital capabilities given the group's focus on growth and digital transformation.
Executive succession planning	The <i>Nominations Committee</i> will focus on the search for the permanent group HR director, <i>Executive Committee</i> succession planning and the related talent pipeline.
Committee composition	Further to any potential Board changes, a full review of the composition and size of the committees will be undertaken by the <i>Nominations Committee</i> .
Focus on key risks	The <i>Audit & Risk Committee</i> will continue to focus on the GRCs, ensuring that we are tracking the progress of any actions required to mitigate and manage these risks. There will be enhanced monitoring of the global risks and the associated audit coverage, as well as identified emerging risks and the plans to mitigate these.
External auditor	The <i>Audit & Risk Committee</i> will continue to focus on monitoring the quality of the external auditor and oversee and manage the change in the lead audit partner, when he rotates off the BT Group audit at the end of FY23.
Continue to improve papers – Remuneration Committee	The <i>Remuneration Committee</i> will continue to focus on ensuring that papers are clear and concise, providing all necessary information to enable the committee to make decisions.
Directors' remuneration policy review	Given the upcoming directors' remuneration policy review, the <i>Remuneration Committee</i> will undertake a comprehensive review to consider whether this continues to be appropriate and aligned with our strategy.
Consumer fairness matters	The <i>BT Compliance Committee</i> will continue to oversee immediate and longer-term customer fairness matters and how we look to measure progress, including how we are supporting vulnerable and less technically able customers.
Oversight of the Manifesto	The Board will consider aligning the role of the <i>Digital Impact & Sustainability Committee</i> to oversight/monitoring of all aspects of the Manifesto.

Board induction

On appointment, directors undertake a comprehensive induction programme designed to give them a thorough overview and understanding of the business. This is tailored to take into account the director's previous experience, their responsibilities and, for each non-executive director, specific responsibilities relevant to their committee memberships. The programme includes meetings with the chairman, the chief executive, other members of the Board and the company secretary (or her delegate), as well as members of the *Executive*

Committee and senior management. Directors also receive key information on our strategy and KPIs, governance framework, recent financial performance, risk management and internal control systems and the policies supporting our business practices.

Directors are encouraged to visit our different offices, contact centres and BT/EE retail shops, as well as spending a day with an Openreach engineer.

Chairman's induction programme



“

In my first few months I have been impressed with the level of commitment throughout the business to the BT Group transformation strategy. Colleagues at every level of the organisation have been open, transparent and helpful in supporting my induction.”

Adam Crozier, Chairman

Adam joined the Board on 1 November 2021 as a non-executive director and chairman designate and became chairman on 1 December 2021. Ahead of his appointment, Adam received an induction pack with key reference materials that provided a thorough understanding of the BT Group, including the most recent financial results, information on our strategy and each of our business units, governance framework, director responsibilities, ethical policies and the Commitments. Ahead of joining the Board, Adam observed Board meetings in September and October 2021.

Adam also held a number of other induction meetings including with the chief executive, Jan du Plessis (as the incumbent chairman), chief financial officer, members of the *Executive Committee* and the other non-executive directors.

He also met with other key senior leaders including the director of risk, compliance & assurance, the director of investor relations, as well as the chair of the Openreach Board and our external auditor, KPMG.

Furthermore, Adam has held meetings with our key stakeholders. He has met with nine of our top shareholders since his appointment, as well as with Ofcom, the Government, the chairman of the BTPS and colleagues throughout BT Group, including the *Colleague Board* members, to get a better understanding of their views. Adam has also observed all Board committee meetings.

During FY23, Adam plans to visit Adastral Park, our BT/EE retail shops and customer contact centres, and to shadow an Openreach field visit to gain a broader insight into customer journeys and experiences, and into the work of our frontline colleagues.

Board composition, succession and evaluation continued

Nominations Committee chair's report

Adam Crozier

Chair of the Nominations Committee
11 May 2022



66

The committee's priority last year was the search for a new chairman. The focus for the year ahead is on Board and Executive Committee succession planning and seeking to strengthen the capabilities and experience of the Board in line with the group's strategy."

Committee role

The committee is responsible, on behalf of the Board, for:

- reviewing the structure, size and composition of the Board and its committees to ensure an appropriate balance of skills, experience, diversity, independence and knowledge
- reviewing succession planning for the Board and recommending the appointment of executive and non-executive directors and the chairman
- reviewing succession planning and performance of the Executive Committee.



The committee's key responsibilities are set out in its terms of reference available at bt.com/governance

Committee membership and attendance

All non-executive directors are members, with the chief executive attending meetings where appropriate. The deputy company secretary is secretary to the committee, and she or her delegate attends all meetings and provides guidance, advice and support as required.

Committee members and attendees do not attend committee discussions where a conflict exists. During the year, five scheduled committee meetings were held and given the search for a new chairman, six additional meetings were held which were chaired by Iain Conn as our senior independent director. All members, with the exception of Jan du Plessis and Ian Cheshire, due to their respective conflicts, attended these meetings. Any member unable to attend a meeting held a separate meeting with Iain.

Meetings attended

Adam Crozier (chair) ^a	3/3	Mike Inglis ^c	5/5
Jan du Plessis ^b	3/3	Matthew Key	5/5
Adel Al-Saleh	5/5	Allison Kirkby	5/5
Ian Cheshire	5/5	Leena Nair	5/5
Iain Conn	5/5	Sara Weller	5/5
Isabel Hudson	5/5		

a Adam became a member on 1 November 2021 and committee chair on 1 December 2021.

b Jan stepped down from the Board and the committee on 30 November 2021.

c Mike stepped down from the Board and the committee at the conclusion of the AGM on 15 July 2021.

Committee focus in FY22

After each meeting, the chair reported back to the Board on the committee's activities.

Board succession and appointments

The committee focused on searching for a new chairman which ultimately culminated in my appointment.

Chairman: search and appointment

Further to the announcement last March of Jan du Plessis' intention to retire from the Board, we commenced an appointment process to find a successor.



Iain Conn, our senior independent director, led the search process and chaired the committee meetings in relation to this. Jan recused himself from these discussions and Ian Cheshire, who had expressed an interest in being considered as a potential candidate for the role, was also not present.



After a formal tender process for a search agency, MWM Consulting, an independent external search agency, who has no other connection to the BT Group, or any of the directors, was appointed to facilitate the process. MWM Consulting is a signatory of the Voluntary Code of Conduct for Executive Search Firms (in line with our Board Diversity and Inclusion Policy).



Iain engaged with a number of our major shareholders on their views on the type of candidate we should consider. Further to a committee discussion on the capabilities, skills and experience required, and having considered the future needs of the business and the feedback from investors, a search brief was agreed. In line with that brief, MWM Consulting prepared a longlist of candidates and was specifically requested by the committee to ensure that it comprised a diverse range of candidates including female candidates and those from ethnic minority backgrounds.



The committee agreed a shortlist of candidates who were formally approached by MWM Consulting for consideration of the role and assessment. Further to a comprehensive assessment and interview process, feedback was discussed by the committee at each stage to shortlist candidates based on the relative criteria and brief. The committee challenged itself throughout the process on ensuring it continued to think about a diverse range of candidates for the role.



The committee subsequently identified Adam Crozier as the preferred candidate to chair the BT Group given his significant operational and transformational experience in both public and private businesses across a range of industries, leading public company boards, developing teams and managing stakeholders. Further to the committee's recommendation, the Board appointed Adam as an independent non-executive director and chairman designate with effect from 1 November 2021 and as chairman with effect from 1 December 2021. Adam was judged to be independent on appointment.

Given the tenure of longer serving directors and Board changes over the last couple of years, the committee's focus for the year ahead is on searching for additional non-executive directors. It has engaged an independent, external search consultant to assist with this. Accordingly, the committee, on behalf of the

Board, has carried out a comprehensive review of the skills, experience and diversity needed on the Board, in line with the group's strategy and the opportunities and challenges we face, as well as the experience needed for the succession planning of key roles. Reflecting on feedback from the FY22 evaluation and this review, it is recognised that we need to enhance the Board's technology and digital capabilities given the group's focus on digital and legacy platform transformation. We are therefore in the process of searching for additional non-executive directors, with at least one director with digital and technology capabilities and transformation expertise. As part of these searches (and any new director searches), diversity is a key consideration. Our external search consultants are asked to ensure they produce diverse candidate longlists, with a particular focus on gender and ethnicity, and work with us to appoint directors that meet the aims and targets of our Board Diversity and Inclusion Policy.

Time commitment

On accepting their appointment, directors must confirm they are able to allocate sufficient time to discharge their responsibilities effectively. Directors are expected to attend meetings of the Board and any committees of which they are members, as well as the AGM and Board offsites. Directors are also expected to devote sufficient time to prepare for each meeting and to participate in other site or office visits to understand the business better. Before accepting new external appointments, directors are required to obtain the prior approval of the Board.

Before recommending the Board approve the appointment of Adam Crozier as chairman, the committee considered Adam's other commitments and whether he would be able to allocate sufficient time to the role. This was also discussed with Adam. Adam advised that he planned to step down as chairman of ASOS (in November 2021) and as a non-executive director of Sony Corporation (in December 2021). He would remain as chair of Kantar and Whitbread and the committee was comfortable that these positions would not be detrimental to his ability to perform his duties as chairman of BT Group. Adam has already spent significant time outside of the scheduled Board and committee meetings in his first few months familiarising himself with the group and the business as well as meeting with management and our stakeholders to understand their views. The Board is satisfied with the time he is dedicating to the role and this will continue to be kept under review by the senior independent director as part of the review of the chairman.

Ahead of Ian Cheshire becoming chair of Channel 4 in April 2022, the Board considered the proposed appointment in line with the time commitment required for BT Group and Ian's other roles. On balance, the Board felt this would not be detrimental to his ability to perform his duties as a non-executive director of BT Group.

Election and re-election of directors

The committee considered, in respect of each director, their skills and experience, time commitment and tenure as part of its recommendation to the Board in relation to the directors put forward for election and re-election. The Board believes that each director it has recommended to shareholders for election or re-election at the 2022 AGM brings considerable knowledge, wide-ranging skills and experience to the Board, makes an effective and valuable contribution and continues to demonstrate commitment to their role.

On recommendation from the committee, the Board also considered the continued independence of non-executive directors as part of its consideration of the re-election recommendations. The Board continues to consider all non-

executive directors as being independent in line with the Code, with the exception of Deutsche Telekom's nominated representative. The chairman was judged to be independent at the time of his appointment.



Details of directors' contracts or letters of appointment are in the Annual remuneration report on [page 111](#)

Diversity and inclusion

The Board Diversity and Inclusion Policy sets out our approach to diversity on the Board and our aim to have a well-balanced Board with the appropriate skills, knowledge, experience and diversity to meet our business needs and support our strategic aim of building the strongest foundations (see [bt.com/governance](#)). In light of recent publications and the changes to the Listing Rules, we will review and update this policy during FY23, but we are already considering how we will meet our targets as part of current director searches. The policy ensures we:

- apply an inclusion lens to all our decision-making processes
- monitor the impact of our decisions on diverse populations
- value and communicate the benefits that difference brings and are unapologetic in our pursuit of a diverse workforce at all levels
- actively seek out opportunities across the business to enhance and strengthen our approach to inclusion.

As at 31 March 2022, in line with our current target, four of our 11 Board directors were female (36%) and two directors were from an ethnic minority background (18%), and in addition, one director has a disability. Whilst we appoint candidates based on merit, we continue to challenge our external search consultants to ensure that all forms of diversity, in particular ethnicity and gender, are considered when drawing up candidate lists and this is a key consideration for our current searches. The Board is cognisant that Leena's departure from the Board at the conclusion of the 2022 AGM will reduce the female membership of the Board from 36% to 27%, which is below our own Board Diversity and Inclusion Policy targets and other external expectations. The diversity of the Board will be addressed as a priority as part of our search for additional non-executive directors.

Diversity is considered in the broadest sense and all forms of difference are considered, including age, gender, nationality, independence, professional background, social and ethnic backgrounds, business and geographic experience, as well as cognitive and personal strengths. These are considered in reviewing the composition of the Board, and where possible, are appropriately balanced. We believe a key driver in delivering our diversity commitments across the organisation is through a Board which has this balance of skills, experience, diversity and knowledge.



Details of our diversity and inclusion strategy, including its objectives, link to strategy, implementation and progress can be found on [page 24](#)

Training and development

The chairman and the company secretary keep the training and development needs of directors under review. Non-executive directors meet with management, enhancing their understanding of the business through briefing sessions. We encourage all directors to keep their skills and knowledge up-to-date and to ask for any support they need. As part of ongoing development, the company secretary (or her delegate) briefs the Board and its committees at each respective meeting, as relevant, on any key legal, regulatory and corporate

Board composition, succession and evaluation continued

Nominations Committee chair's report continued

governance developments. During the year, these briefings included updates on the institutional investor guidelines, environmental, social and governance considerations and governance publications. Directors are updated as required on developments in the environment in which the business operates and internal and external advisers are invited to meetings to provide updates as necessary, for example during the year an update was provided on the Health and Safety legislation and directors' responsibilities thereunder and the National Security and Investment Act 2021.

Each director may obtain independent professional advice at the group's expense as required. The Board and each committee are supported by the company secretary and her team, and they are available to all directors to provide advice and support.

Openreach Limited board succession

Under its remit, the committee has a responsibility to consider changes to the Openreach Limited board and recommend any changes to the BT Group Board for approval. Given Liz Benison's indication of her intention to step down from the Openreach Limited Board in 2022, a search for her successor was commenced. In March 2022, the proposed appointment of Natalie Ceeney effective as of 1 May 2022 was considered by the committee and subsequently recommended to the Board for approval.

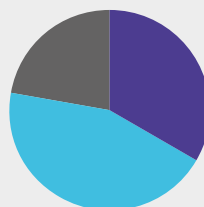
Executive Committee succession planning and talent

Throughout the year, the committee has kept under review:

- the performance and succession planning of *Executive Committee* members. In particular, the committee discussed with the chief executive potential successor candidates to the HR director. Given the transformation and people agenda, and the group's key priorities, the committee considered the impact of the different options on the organisation and its stakeholders, and which candidate would best support this. After careful consideration, the committee approved the appointment of Debbie White as the interim HR director. The committee continues to focus on the search for a permanent HR director and broader *Executive Committee* succession planning, including having oversight of the talent pipeline with a focus on diversity
- key talent at senior leadership level. The committee reflected on the importance of identifying critical roles and building stronger diversity of experience, gender and ethnicity, as well as commercial, technology and transformation capabilities, both through potential external candidates and through our internal talent pipeline
- the external appointments of *Executive Committee* members, in line with our policy on external interests for *Executive Committee* members (including executive directors) and the CEO, Openreach. Under this policy, proposed external directorships and other significant external interests must not be to an organisation that is a BT Group competitor/major supplier to BT Group, create a conflict of interest for the individual with their role at BT Group, involve significant amounts of BT Group working hours or impede the ability of the individual to perform their BT Group role, or involve disproportionate incentives or remuneration, with reference to the time commitment of the role. Any fees or other incentives arising from such appointments may be retained by the individual, subject to the amount being proportionate.

Chairman and non-executive directors' tenure

As at 31 March 2022



0-2 years	3	33%
2-4 years	4	45%
4-6 years	0	0%
7-9 years	2	22%
9+ years	0	0%

Diversity and independence

As at 31 March 2022

Male ● Female ●
 (D) Disability (E) Ethnic minority background

Board

Chairman
(independent on appointment)

Non-independent
executive director

Independent
non-executive director

Non-independent,
non-executive director

Executive Committee

(including CEO, Openreach and executive directors on the Board)

As at 31 March 2022

8 (73%) 3 (27%)

Executive Committee, company secretary and direct reports

(including CEO, Openreach and excluding executive directors on the Board)

As at 31 March 2022

75 (69%) 34 (31%)

Audit, risk and internal control

Audit & Risk Committee chair's report

Matthew Key

Chair of the Audit & Risk Committee
11 May 2022



Committee role

The committee is responsible, on behalf of the Board, for:

- monitoring the integrity of the financial statements and overseeing the financial reporting process
- reviewing the effectiveness of the group's systems of risk management and internal control
- reviewing the effectiveness of the internal audit function
- approving the appointment, reappointment, remuneration and removal of the external auditor, as well as the terms of the engagement and the provision of any non-audit services, overseeing the external auditor's independence and effectiveness in delivering a quality audit.

 The committee's key responsibilities are set out in its terms of reference available at bt.com/governance

Committee membership and attendance

The committee members are all independent non-executive directors with a range of skills, and the committee as a whole has experience relevant to the sector and acts independently of management. Allison and I have recent and relevant business and financial experience (as set out in our biographies on [page 74](#)) in line with the Code. The deputy company secretary is secretary to this committee, and she or her delegate attends all meetings and provides guidance, advice and support as required. The chairman, chief executive and chief financial officer attend committee meetings as required.

Private committee sessions with the internal and external auditor were held at each meeting without management being present. The external auditor was not present at meetings where their performance and/or their remuneration was discussed.

Meetings attended

Matthew Key (chair)	6/6	Mike Inglis ^b	2/2
Ian Cheshire ^a	4/4	Allison Kirkby	6/6
Iain Conn	6/6	Sara Weller	6/6

^a Ian joined the committee on 1 September 2021.

^b Mike stepped down from the Board and this committee at the conclusion of the AGM on 15 July 2021.

Other attendees (× Regular attendee • Attends as required)

Chief executive	×
Chief financial officer	×
Director, group finance	×
Director of risk, compliance & assurance	×
General counsel, company secretary & director regulatory affairs	×
Director of external reporting and financial control	•
Risk director	•
Internal audit director	•
Ethics and compliance director	•

 Details on the FY22 evaluation of the committee's effectiveness can be found on [page 84](#)

“

This year, the committee continued to focus on reviewing our systems of risk management and internal control, particularly on the enhancements to our risk management framework, and the implementation of our finance transformation programme.”

Committee focus in FY22

The committee met six times this year. As committee chair, I met with the KPMG lead audit partner, the internal auditor and management as appropriate ahead of meetings to discuss specific items of focus to report to the committee. After each meeting, I also reported back to the Board on the committee's activities, the main issues discussed and matters of particular relevance, with the Board receiving copies of the committee's meeting papers and minutes.

Financial reporting

During the year, the committee considered the full year and half year results, and the Q1 and Q3 trading updates. It reviewed the quality of accounting policies and practices, as well as critical accounting estimates and judgements.

The committee considered, and was satisfied with:

- the processes supporting the preparation and consolidation of the financial statements, including consistent application of the accounting policies, and the ongoing verification by management and the external auditor
- management's accounting judgements and the appropriate application of the accounting policies, having also discussed these with the external auditor.

 More information on BT Group's significant accounting policies is set out on [page 135](#)

The committee exercised its judgement when considering matters related to the financial statements, and recommended approval by the Board of each of our full year and half year results, Q1 and Q3 trading updates and the Annual Report.

Audit, risk and internal control continued

Audit & Risk Committee chair's report continued

Overview of the year

Focus	Considered by the committee					
	2021			2022		
	May	Jul	Oct	Nov	Jan	Mar
Financial reporting:						
• Results/trading updates and accounting judgements						
• Annual Report 2021						
• Regulatory financial statements 2021						
• Going concern assessment						
• Viability statement						
Major contentious matters						
Internal controls over financial reporting						
Finance transformation programme						
GRCs and CFU risk reviews: point and emerging risks						
Report from Openreach board, audit, risk & compliance committee chair on the risks in Openreach						
Compliance with Code requirements – risk management framework						
Ethics & compliance:						
• Ethics & compliance programmes						
• Speak Up (whistleblowing) reports						
• Being trusted: our code ^a						
Internal audit:						
• Internal audit report						
• FY23 group internal audit plan						
• Group internal audit charter						
• International audits coverage and analysis						
External audit – KPMG:						
• External audit report						
• External audit plan						
• Audit and non-audit fees						
• Effectiveness						
• Independence and reappointment						

^a The draft code was also shared with the committee ahead of launch in September 2021.

Fair, balanced and understandable

In May 2022, the committee reviewed the Annual Report 2022, having previously fed back on earlier drafts. The committee concluded that the Annual Report 2022, taken as a whole, was fair, balanced and understandable and provided the information necessary for shareholders to assess the group's position, performance, business model and strategy. It also considered the TCFD (see [pages 66 to 69](#)), and the potential impact on forward-looking assumptions supporting going concern and viability assessments. In its assessment, it

considered that the following had been carried out and this formed the basis of its recommendation to the Board:

- a verification process covering the factual content reviewed by the internal audit team
- comprehensive reviews by different levels of management, including the *Executive Committee*, to consider the messaging and ensure consistency and overall balance.

Significant matters related to the financial statements and how these were addressed

Group accounting policies, critical estimates and judgements

The committee considered the accounting policies and disclosures in the consolidated financial statements regarding critical and key accounting estimates and significant judgements, including the valuation of our pensions assets and obligations, taxation, and contingent liabilities associated with litigation, provisions and our goodwill impairment model.

Going concern assessment

The committee considered management's forecasts of group cash flows and net debt, as well as the group's liquidity requirements and borrowing facilities, including downside scenarios from the viability model as discussed below. Following this review and a discussion of the sensitivities, it confirmed that the going concern basis of accounting continues to be an appropriate basis of preparation for the financial statements and recommended it for approval by the Board.

 See page 115

Viability statement

The committee assessed the process and assessment of the group's prospects, the time horizon and how this aligned with the group's long-term forecasts, taking into account the group's current position and principal risks. The committee also considered the group risks in management's stress testing model, including the review of downside scenarios and a combined 'severe but plausible' scenario where multiple inter-connected risks materialise. The committee was satisfied that the viability statement could be provided and endorsed the selection of a five-year time horizon as a basis for the statement and the approach to its development, and recommended it for approval by the Board.

 See page 70

Regulatory financial reporting

The committee supported the processes and systems enhancements that were implemented to ensure that the group met its 2021 regulatory financial reporting obligations.

Pensions

The committee considered the assumptions underlying the valuation of the pension assets and liabilities in the financial statements, as summarised in note 20 to the consolidated financial statements, the sensitivities around the assumptions and the impact of the assumptions on the balance sheet, income statement and related disclosures. In May 2021, the committee was updated on the triennial funding valuation for BTPS, the possible range of valuation outcomes and our funding position ahead of the Board's approval of the funding valuation.

Goodwill impairment

The committee received and discussed the key assumptions, including operating cash flow forecasts, resulting headroom and the sensitivity analysis performed by management. The committee considered and was satisfied with the key assumptions and agreed that no goodwill impairment charges were required for FY22.

Major contracts

The performance of major contracts in Enterprise and Global were considered, including accounting judgements, assessments of the recoverability of dedicated contract assets, and any requirement for loss provisions.

Asset verification and asset lives

The committee assessed the results of management's annual asset life review, asset verification exercise and review of fully depreciated assets. The committee was satisfied that the judgements made, and the methodology applied, were appropriate.

Divestments

The committee reviewed the judgements made in relation to the group's divestments, including on whether the held for sale criteria had been satisfied, the judgements involved in accounting for the BT Sport 50:50 joint venture, disclosed as a post balance sheet event, and how goodwill should be allocated to divested or held for sale entities.

Other matters

The committee reviewed specific items quarterly, and considered and agreed that they were appropriately categorised. It also considered management's view of the quality of earnings and of the effective tax rate. At each quarter, it considered a detailed assessment of provisions, and the committee was satisfied with the analysis provided in relation to the results.

Finance transformation

Throughout the year, the committee was regularly updated on the implementation of a new central finance system and group accounting book of record and considered in particular the impact on published financial information and the group's control environment.

FRC review

In February 2022, the Corporate Reporting Review department of the FRC advised that our Annual Report 2021 had been subject to its review. It did not raise any questions or queries on our accounts. It did note a number of matters where it believed that users of the accounts would benefit from improvements to our existing disclosures. This feedback has been reflected within this Annual Report. The FRC review does not provide any assurance that the Annual Report are correct in all material respects; the FRC's role is not to verify the information provided, but to consider compliance with reporting requirements.

Audit, risk and internal control continued

Audit & Risk Committee chair's report continued

Risk management and internal controls systems

The group has enhanced its framework of risk management, controls and assurance for dealing with its landscape of risks. This framework provides the tools to enable us to be smart with risk and improve operational and ethical discipline. The risk management processes identify and monitor the risks facing the group and the risk landscape is divided into areas of enduring risk called GRCs, which cover strategic, financial, operational and compliance risks.

 Further information on our risk management framework and principal risks can be found on [pages 55 to 65](#)

Management continues to build a more robust controls landscape through the ongoing finance transformation programme, and a rigorous financial controls assurance approach has been followed in line with previous years. Management has undertaken testing of the design and implementation of all key financial controls and effective reliance on the systems tested was confirmed.

In line with the Code, the Board monitored the effectiveness of the group's systems of risk management and internal controls through detailed reviews of the GRCs and consideration of reports from management, as well as from internal audit and other assurance functions. Much of this work was undertaken by this committee on the Board's behalf. Given that the Board is ultimately responsible for the group's systems of risk management and internal controls, as chair, I subsequently reported the key matters from each of these sessions to the Board.

The activities listed below collectively enable the committee to confirm that the group's systems of risk management and internal controls have been appropriately reviewed. The committee considered these systems throughout the year. Where required, it proactively discussed the suggested improvement actions and monitored their progress. Further information on improvements being made to the overall risk management framework, as well as specific actions taken to manage our principal risks can be found on [pages 55 to 57](#).

In addition to the significant improvements in the "wiring" of our approach to risk and control, the committee discussed the improvements made to the risk and control "mindset" across the group. Led by the chief executive, programmes to improve operational integrity – robust operations and smart decisions in an ethical way – are aimed at improving our management of risk at all levels. These programmes aim to make our requirements simpler, ensure colleagues hold themselves and others to account, listen for initial signals of emerging problems, and think smartly through potential consequences when making decisions.

Activities carried out during the year:

The committee held open and honest discussions on the GRCs with the *Executive Committee* risk owners to understand current and anticipated risk developments, and reviewed how effectively the risks are being mitigated and managed. It considered the definition of risk appetite and supporting metrics within the GRCs, the effectiveness of the controls, mitigation activities and any areas for improvement. The committee robustly assessed both current, specific concerns (point risks) and uncertainties that may materialise in the future (emerging risks), particularly as a consequence of adverse changes to the economic, social, regulatory, political or technology environment, or as an unintended consequence of new products and services being offered or developed by the group. The committee agreed with management any actions required to

manage or mitigate these risks effectively. The committee oversaw the preparations required to ensure compliance ahead of the launch of the group's hardware financing offering. It discussed the systems, processes, controls and capabilities in place to ensure the necessary assurances ahead of the go live. The committee considered the go/no go criteria, reviewed and assured by an independent third party and internal audit and was comfortable that the criteria had been met, subsequently approving proceeding to launch.

Given the legal and security risks associated with the data we manage, the importance to our colleagues, customers and the group's ambition, as well as the ever-increasing regulatory scrutiny in this space, the committee has received a number of updates on the management of this GRC, and monitored progress against any agreed enhancements.

The committee continues to monitor cyber security risk closely. An independent strategic cyber security assessment has been undertaken, as well as a separate external review of our security strategy. A cyber security remediation plan has also been established which has identified key initiatives required to achieve risk appetite targets.

The committee considered management's approach to managing emerging risks within the risk management framework and in each of the GRCs. The committee held in-depth discussions on the emerging risk profile and landscape, particularly the key disruptive technology-related emerging risks. In addition, with the CFU CEOs, the committee now undertakes unit risk reviews, which cover how the GRCs are being managed in the respective units, and the significant point and emerging risks. In FY22, we commenced with a review of the Enterprise unit.

In addition, the committee monitored the operation of management's assurance approach to internal controls over financial reporting (ICOFR) and considered the implications of management's conclusions for the purposes of the preparation of the Annual Report 2022. The committee was satisfied that the necessary ICOFR testing had been carried out, and that any related control deficiencies identified were appropriately addressed, or are in the process of being addressed.

The committee continued to monitor the finance transformation programme which supports the ongoing improvement of controls identified through management's testing and compliance monitoring programme. The committee received updates on the progress of the execution of the programme, which aims to deliver a more automated, preventative controls environment over the medium term. Ahead of the committee's endorsement of the go-live, the committee considered how the specific go-live criteria and programme governance processes were met.

The committee also monitors the outcome of the Department for Business, Energy & Industrial Strategy (BEIS) consultation paper and how this may impact our current controls development strategy.

Ethics and compliance

This year, the group launched ‘Being trusted: our code’ which sets out the principles of how we expect our colleagues, and anyone who represents or works with us, to behave, do business and connect for good. The committee discussed its background and purpose ahead of launch. ‘Being trusted: our code’ demonstrates our commitment to high standards of business conduct. It provides a set of statements and promises about what it means to be part of the group, covering how we treat our colleagues, customers, suppliers, and our responsibilities in respect of meeting our legal and regulatory obligations especially in respect of data privacy and security, finance, the environment and the responsible use of technology and setting high standards of operational integrity.

 More information on this can be found on [page 18](#)

 [bt.com/ethics](https://www.bt.com/ethics)

The committee considered regular reports on our ethics and compliance policies, and programmes and related learnings and culture. It spent time discussing the enhancement programme in relation to international trade, anti-bribery and corruption, as well as communications regulation compliance in line with the respective GRC.

Each quarter, the committee received and considered reports on issues raised through Speak Up, BT Group’s confidential, whistleblowing services operated by an independent company, 24 hours a day, in multiple languages, for both written and telephone reports. The committee ensures that arrangements are in place for the proportionate and independent investigation of these and other matters via the ethics and compliance team. The procedures for Speak Up are reviewed annually with input from the specialists in Speak Up, HR and legal, to ensure best practice is maintained and that procedures remain compliant. On receipt, any whistleblowing reports are triaged by specialist resource, assigned a priority and, where appropriate, are directed to an investigator from security, HR or legal with appropriate assistance from subject matter experts and/or independent line management. On completion of any investigation, the Speak Up team ensures the investigation has been thorough and fair. High priority cases are reviewed by a multi-disciplinary panel for completeness before closure. The committee discussed any themes identified across the cases received, the outcomes of these cases and the overall rates of substantiation. The committee was also kept up to date on the introduction of a new HR helpline to enable colleagues to access “in the moment” assistance with any issues.

Internal audit

Internal audit provides independent, objective and timely assurance to senior management and the Board, through this committee, over the design and operational effectiveness of key processes and controls that manage the risks across the organisation.

During the year, the committee:

- reviewed and approved the group internal audit annual plan, ensuring it aligned to the principal risks of the business
- reviewed and, taking into account the current needs of the group, approved the internal audit charter, which establishes internal audit’s independence, authority, remit and reporting lines to conduct its work
- received regular reports from internal audit on its activities and progress against the group internal audit plan, allowing the committee to monitor delivery against the plan
- held in-depth discussions with management on all internal audit reports where controls were assessed as “inadequate”, and action plans to address these. The actions were tracked by the committee, including the responsiveness of management to the findings and recommendations, and the progress of closing any overdue actions.

During the year, the committee carried out its annual assessment of the performance and effectiveness of internal audit, including whether the activities, structure, expertise, objectivity and quality of the function were appropriate for the business. The committee concluded that internal audit continues to add value in the context of the group’s overall assurance framework. An external effectiveness review of internal audit was previously conducted in FY19 by the Chartered Institute of Internal Auditors in accordance with our five-year cycle of such reviews.

Audit, risk and internal control continued

Audit & Risk Committee chair's report continued

External audit

The committee is responsible for making recommendations to the Board on the reappointment of the external auditor, determining their independence from the group and its management and agreeing the scope and fee for the audit. Following its review of KPMG's performance, the committee concluded that the reappointment of KPMG should be recommended to shareholders at the 2022 AGM.

Following the audit tender in FY17, KPMG was appointed as BT Group's external auditor from the conclusion of the 2018 AGM. The FY22 audit is KPMG's fourth audit of BT Group. John Luke was appointed as the KPMG lead audit partner for the BT Group in FY21, having been the audit partner for Openreach Limited since FY19. Recognising the rotational requirements for the lead audit partner and taking into account both his tenure at Openreach and BT Group, FY23 will be John Luke's final year as lead audit partner. The committee chair has discussed John Luke's succession with the chief executive of KPMG in the UK, and the committee is currently reviewing potential candidates put forward by KPMG to succeed John and to ensure a smooth handover.

During the year, the committee:

- considered and approved the proposed external audit fees for the year ended 31 March 2022, as well as the recurring audit fee for the regulatory financial statements and the interim review fee (see the **Independent auditor's report** on **pages 122 to 128** for more details)
- reviewed with the external auditor, and subsequently approved, the external auditor's scope of work, audit plan and strategy for FY22
- approved the engagement letter of the external auditor
- recommended approval by the Board of management's letters of representation
- reviewed the annual findings of the FRC's Audit Quality Review in respect of KPMG's audits. The committee discussed the findings and the applicability to the BT Group and are discussing this further with KPMG.

As part of my year-end report to the Board, I informed the Board of the outcome of the external audit.

BT Group confirms that it complies with the EU Regulation on Audit Reform and the Competition and Markets Authority's Statutory Audit Services Order with regard to mandatory auditor rotation and tendering.

Independence and non-audit services

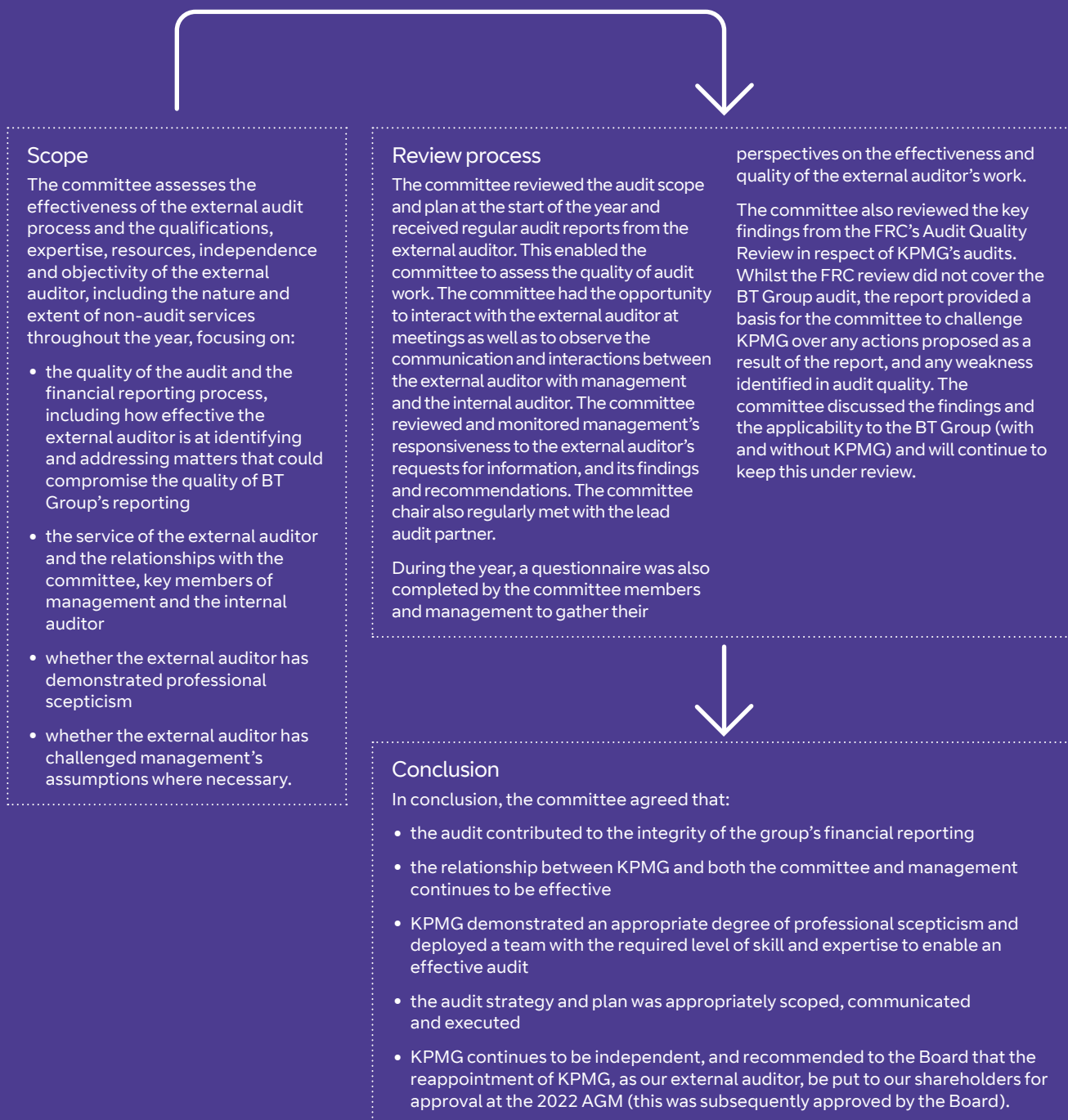
The committee discussed the external auditor's independence and potential areas that could give rise to a conflict of interest, and considered the safeguards in place to prevent compromising their independence and objectivity. BT Group's non-audit services policy sets out the non-audit services that can be provided by the external auditor, in line with the latest ethical standards. The external auditor is not permitted to perform any work which they may later be required to audit, or which might affect their objectivity and independence, or create a conflict of interest. Internal procedures describe the approval process for work performed by the external auditor, and these applied to KPMG throughout the year. The committee monitored compliance with the policies and procedures and considered business relationships with the external auditor, and the level and appropriateness of non-audit services and fees. The committee will continue to keep under review BT Group's non-audit services policy.



Our non-audit services policy can be found at bt.com/governance

The committee reviewed the confirmation and information received from the external auditor on the arrangements that it has in place to safeguard auditor independence and objectivity, which are consistent with the ethical standards published by the FRC, including specific safeguards where they provide permissible non-audit services to the group. The nature of the non-audit services carried out by the external auditor during the year are described in note 8 to the consolidated **financial statements** on **page 146**. These were carried out due to either legal or regulatory obligations, contractual requirements, or represented areas of assurance work where it was materially more efficient for the external auditor to be engaged, as opposed to another third party due to the work completed in relation to the audit, and which were permitted to be performed by an auditor under the Revised Ethical Standard 2019. Audit-related assurance services, including the audit of the regulatory financial statements, as well as any approved non-audit services performed by KPMG, are considered a low threat to auditor independence. The largest non-audit service included work auditing BT Sport's carved out financial statements. This work fell within the scope of limited permissible services, which are closely related to existing audit work that KPMG provide. The proportion of other non-audit services to total services carried out by the external auditor is therefore considered the most suitable measure of the non-audit services provided. These represented 0.6% of the total fees (FY21: 0.8%).

External auditor effectiveness and quality



BT Compliance Committee chair's report

Isabel Hudson

Chair of the BT Compliance Committee
11 May 2022



Committee role

The committee is responsible on behalf of the Board for:

- monitoring BT Group's compliance with the letter and spirit of the Commitments made as part of the 2017 Digital Communications Review with Ofcom.
- assessing whether Openreach can act with appropriate independence while BT Group is able to fulfil its parent company duties
- overseeing consumer fairness matters on behalf of the Board by monitoring whether BT Group is living up to Ofcom's Fairness for Customers commitments
- reviewing, in both cases, how BT Group is delivering appropriate outcomes for stakeholders.



The committee's key responsibilities are set out in its terms of reference available at bt.com/governance

Committee membership and attendance

During the year, the committee met four times and comprises independent non-executive directors only. The deputy company secretary is secretary to this committee, and she or her delegate attends all meetings and provides guidance, advice and support as required. The chairman, general counsel, company secretary & director regulatory affairs, commitments assurance office (CAO) director and Openreach's commitments monitoring office director also attend meetings as invitees.

Meetings attended

Isabel Hudson (chair)	4/4	Allison Kirkby	4/4
Ian Cheshire	4/4	Sara Weller ^b	3/3
Mike Inglis ^a	1/1		

^a Mike stepped down from the Board and the committee at the conclusion of the AGM on 15 July 2021.

^b Sara joined the committee on 10 May 2021.

I report to the Board after each meeting on the committee's activities and the main issues discussed, with the Board receiving copies of the committee's meeting papers and minutes. Ofcom also receives copies of minutes and each year we publish an annual review (available at bt.com/btcc).



Details on how we engage with Ofcom can be found on [page 41](#)



Details on the FY22 evaluation of the committee's effectiveness can be found on [page 84](#)

* Ofcom's annual Openreach monitoring report (December 2021) can be found at https://www.ofcom.org.uk/_data/assets/pdf_file/0024/229236/annual-openreach-monitoring-report.pdf



It is positive that the spirit and letter of the Commitments are seen to be well-embedded, even as the BT Group continues to evolve and make organisational changes, with inductions and training focusing on this area. We will continue to monitor the culture and behaviours across BT. The committee has also embraced its new oversight role on consumer fairness, challenging as required."

Committee focus in FY22

Compliance with the Commitments

The committee has been pleased to observe that the Commitments are well-embedded across the group as recognised by Ofcom's annual Openreach monitoring report*. It has continued to monitor:

- the adherence of BT Group's leadership with the Commitments in light of senior leadership changes and the creation of the Digital unit
- the CAO's reviews of the annual financial planning, strategy development and commercial pricing and product processes
- the finance transformation programme and how Openreach information is ringfenced and access to it controlled. The committee noted the effective dialogue between BT and Openreach throughout this transition
- stakeholder perceptions by engagement with industry stakeholders, including CPs, as well as Ofcom and Openreach
- BT Group senior leadership views on how the efforts of both BT and Openreach have continued to strengthen the relationship between them
- the implementation of recommended enhancements from last year's independent assessment of the effectiveness of BT Group's monitoring framework have made monitoring processes more efficient in managing any Commitments risks
- the outcomes of CAO compliance "quick checks", made decisions on potential Commitments breaches and, where appropriate, discussed remedial actions. Breaches continue to remain at a low level in nature and number.

Consumer fairness matters

In its first year of monitoring consumer fairness (see [page 16](#)), the committee focused on:

- the proposed transition to All IP and the introduction of Digital Voice (see [page 16](#)). The committee spent significant time addressing key issues of the programme with management including customer impacts and the related communications
- the decision to proceed with our planned consumer price increase in March 2022 (announced in 2020) noting current inflation rates and the continued engagement with key stakeholders and customers ahead of this
- the introduction and provision of social tariffs, how the group is addressing loyalty-related issues, the cap on out-of-contract price rises, and the broader efforts to support vulnerable and less technically able customers
- year-on-year consumer fairness trends as well as outputs from the group's consumer fairness panel meetings.

Digital Impact & Sustainability Committee chair's report

Leena Nair

Chair of the Digital Impact & Sustainability Committee
11 May 2022



Committee role

The committee is responsible, on behalf of the Board, for:

- agreeing the digital impact and sustainability strategy for the group
- oversight of the progress of our related external targets with a particular focus on how these are being executed through the group's activities in areas such as digital skills, responsible tech, human rights, climate change and the environment.

 The committee's key responsibilities are set out in its terms of reference available at bt.com/governance

During what continues to be a difficult time for so many, it has been encouraging to see the BT Group step up to the challenge to support our colleagues, communities, the country and internationally. We continue to focus on tackling climate change and environmental challenges, championing responsible tech and human rights and giving people the skills they need to thrive in the digital world. Our strategy in these areas has evolved under the Manifesto, which aims to accelerate growth through tech that's responsible, inclusive and sustainable. It is a core part of our strategy and is reflected in two elements of the annual bonus non-financial measures. As I step down as chair, I am pleased to see our ongoing commitment to this, which will continue to build trust and create value for all stakeholders.

Committee membership and attendance

The committee members are all independent non-executive directors. The deputy company secretary is secretary to this committee, and she or her delegate attends all meetings and provides guidance, advice and support as required. The HR director, corporate affairs director, CEO Consumer, CEO Enterprise, sustainability & corporate affairs strategy director, and director of external communications & digital impact also attend meetings as invitees.

During the year, the committee held four scheduled meetings and one ad hoc meeting.

Meetings attended

Leena Nair (chair)	4/4	Mike Inglis ^c	1/1
Jan du Plessis ^a	2/2	Sara Weller	4/4
Isabel Hudson ^b	3/4		

a Jan stepped down from the Board and the committee on 30 November 2021.

b Isabel gave apologies for one meeting due to prior business commitments.

c Mike stepped down from the Board and the committee at the conclusion of the AGM on 15 July 2021.

I report to the Board after each meeting on the committee's activities and the main issues discussed, with the Board receiving copies of the committee's meeting papers and minutes.

Details on the FY22 evaluation of the committee's effectiveness can be found on [page 84](#)



The launch of the Manifesto for a bright, sustainable future this year further demonstrates the group's commitment to being a responsible, inclusive and sustainable business, and the importance of this to our strategy."

Committee focus in FY22

Manifesto for a bright, sustainable future

Ahead of its launch, the committee inputted and shared views on the draft Manifesto, its objectives and the activities thereunder (see [pages 32 to 35](#) for more details on this).

Responsible: Responsible tech and human rights

The committee considered progress in healthcare technology, technology partnering and procurement, data monetisation, and external perspectives on data and technology usage. It also discussed our human rights programme and endorsed BT Group's human rights policy.

Inclusive: Digital skills

The committee received updates on the Skills for Tomorrow programme, Consumer's activities and campaigns and Enterprise's work to help small businesses. It continued to monitor performance against our digital skills KPI.

Sustainable: Climate and the environment

The committee considered:

- BT Group's climate strategy and related KPIs. It approved the acceleration of our net zero target for its own operations from 2045 to the end of March 2031, and a new net zero target for supply chain and customer emissions to be achieved by the end of March 2041
- progress in decarbonising our operations including the adoption of electric vehicles into the group's commercial vehicle fleet, noting some of the challenges faced in respect of this given a lack of vehicle supply and charging infrastructure
- the introduction of new goals, to help customers cut 60m tonnes of CO₂e by 2030, and to be a circular business by 2030, and part of a circular tech and telco ecosystem by 2040
- how we would address the recommendations of TCFD (see [pages 66 to 69](#)).

Stakeholder engagement

The committee discussed the group's approach to understanding the interests of our key stakeholders and how this is reflected in our digital impact and sustainability strategy, external reporting, and engagement with stakeholders (including our shareholders) in a landscape of increasing focus on environmental, social and governance factors.

Supply chain

The committee was kept updated on the programmes and initiatives in place across the group to manage risks within our supply chain, including how we mitigate these risks and ensure that the group remains a responsible, inclusive and sustainable business.



See [pages 32 to 35](#) for more detail on our digital impact and sustainability strategy and KPIs

Report on directors' remuneration

Committee chair's letter

Sir Ian Cheshire

Chair of the Remuneration
Committee
11 May 2022



Contents

Committee chair's letter

Review of the year; committee decisions; key outturns and plans for the year ahead – **pages 98 to 100.**

Focus on remuneration

The key aspects of our remuneration structure, outcomes for FY22 and implementation of the Directors' Remuneration Policy (Policy) in FY23 – **pages 101 to 103.**

Annual remuneration report

More detail on how we have implemented the Policy during FY22 including the single figure of remuneration for each director – **pages 104 to 111.**

Remuneration in context

How we take account of remuneration conditions across the group – **pages 112 to 113.**

Committee membership and attendance

The committee members are all independent non-executive directors only. The deputy company secretary or her appointed delegate acts as secretary to the committee, and they attend all meetings and provide advice, guidance and support as required.

The chairman, chief executive, group HR director and director of reward are typically invited to attend meetings. They do not attend meetings where their own remuneration is discussed or in other circumstances where their attendance would not be appropriate.

Deloitte LLP, as the independent remuneration adviser to the committee, also attends all meetings.

The committee held five scheduled meetings during the year and three ad hoc meetings. The ad hoc meetings have predominantly been focused on remuneration arrangements for the *Executive Committee*.

Meetings attended

Ian Cheshire (chair)	5/5	Matthew Key	5/5
Iain Conn	5/5	Leena Nair ^b	4/5
Isabel Hudson ^a	4/5		

a Isabel gave apologies for one meeting during the year due to other business commitments.

b Leena gave apologies for one meeting during the year due to other business commitments.



The Committee has recognised the hard work and dedication of our workforce and how that has enabled us to continue to deliver for the country. We've have continued to ensure that any remuneration decisions taken during the year were in line with our Directors' Remuneration Policy."

Committee role

- Determines the salary and benefits for the chairman, executive directors, members of the *Executive Committee* including the company secretary, and monitors remuneration practices and policies for the wider workforce
- Sets the performance targets for the annual bonus scheme for senior executives for the year ahead
- Determines awards under the annual bonus scheme and the group's long-term incentive plans for senior executives
- Reviews and approves the Report on directors' remuneration
- Reviews and approves the Policy including seeking shareholder approval, on a binding basis, at least every three years
- Ensures that all remuneration decisions are made within the parameters of the approved Policy and align with our reward philosophy and our values. No senior executive is involved in any decision about their own remuneration.

After each meeting, I report back to the Board on the committee's activities and the main issues discussed.



The committee's key responsibilities are set out in its terms of reference available at [bt.com/governance](https://www.bt.com/governance)

I am immensely proud of our colleagues who have continued to improve customer service and deliver vital connectivity, as we extended and strengthened our networks to support the country's recovery despite continued disruption to our business and the wider economy.

This report sets out information on the committee's activities during the year, our remuneration framework and its implementation. I have also provided further context on the performance of the business throughout the year and the environment in which the committee made decisions on executive pay.

Wider workforce context

Supporting our workforce throughout the pandemic has been a key priority. No colleagues lost their jobs as a result of the pandemic, and we did not make use of the Government's furlough scheme; instead we created new jobs in Openreach and expanded our investment in UK fibre infrastructure at a time in which other companies cut pay, reduced hours and made redundancies.

However, we were not immune to the financial impact of the pandemic: although we have continued to support our UK frontline colleagues each year (through a 1.5% increase in 2020 and a £1,000 one-off bonus in 2021), our UK management colleagues have not received an annual salary increase since June 2019.

This year we committed that all eligible colleagues would receive an annual salary increase. Given the rising cost-of-living pressure faced by many of our colleagues, we have worked hard

to maximise the impact of this year's pay increase budget, focused our efforts on our lowest-paid colleagues, and sought to deliver the increase as soon as possible.

Although we regretfully were not able to reach agreement with the CWU, this year's pay rise of £1,500 for our UK frontline colleagues and key workers is the biggest investment we've made in more than two decades. We have also voluntarily committed to paying UK colleagues at least the Real Living Wage and recently increased our minimum salary across the board to reflect that.

For our UK management population a total salary increase budget of 3% was confirmed, but again we targeted this toward our lower-paid managers. A lower budget of 2% was available for the UK senior management team.

However, we acknowledge that this remains a sensitive and challenging time, and the committee has borne that in mind throughout the year when considering remuneration matters within its remit.

Performance and executive remuneration outcomes for FY22

FY22 annual bonus plan

Annual bonus performance was based on a scorecard of seven key financial and non-financial measures that align to our strategic priorities.

Financial performance accounts for 70% of the bonus scorecard and comprises the following measures:

- **Adjusted EBITDA (35%)** – the outcome was in line with our expectations at £7,577m, just below target. Despite pressures on our revenue, we continued to see benefits from our modernisation programme.
- **Normalised free cash flow (35%)** – cash flow performance was strong through the second half of the year, and the final outcome of £1,392m was between target and stretch.

Our non-financial measures account for 30% of the bonus scorecard and comprise the following:

- **Customer (10%)** – although there was some volatility during the year as the impact of the pandemic dropped off, we saw strong group NPS performance and finished the year just above target. This reflected record NPS results in Consumer, BT SME and Global.
- **Converged networks (10%)** – we have continued to drive sales and delivery of the latest network technologies throughout the year. The number of FTTP connections was just above target, while performance against our 5G customers measure was close to stretch.
- **Digital impact & sustainability (10%)**
 - **Skills for tomorrow (5%)** – during the year we launched multiple wide-reaching campaigns with targeted support for jobseekers, SMEs and families, reaching 893,000 people across the country. Performance was between target and stretch.
 - **Carbon emissions (5%)** – performance against the carbon emissions intensity metric was close to stretch.

When determining overall performance and bonus pay-outs, the committee also considers a number of other factors including share price performance, the external environment and overall affordability. Despite the formulaic outcome of the

final bonus scorecard being 123%, the committee exercised its discretion to cap the bonuses of our executive directors at 100% of target, in line with the chief executive's recommendation. Although we have met our financial goals, held to our commitment to reinstate the dividend in FY22, and delivered a competitive salary review for our colleagues, the committee believes that this is a better reflection of the overall performance of the business and the wider stakeholder experience.

Accordingly, Philip and Simon will be awarded bonuses of £1,320,000 and £882,526 respectively. In line with the Policy, 50% of the bonus will be deferred into shares for three years.

2019 Incentive Share Plan (ISP) award

The final award under our legacy ISP was granted in 2019, with performance measured over the three years to 31 March 2022. Vesting is based on three performance measures: relative total shareholder return (40%) (TSR), normalised free cash flow (40%) and growth in underlying revenue (including transit) (20%).

Since the performance targets were set, we have made a number of critical strategic decisions which were not foreseen in our original business plan. Most notably, this includes our commitment to expand the rollout of our full-fibre capability, and the implications for capital expenditure and cash flow. These decisions were being made against an uncertain backdrop given the pandemic, and the level of our commitment and its impact on normalised free cash flow evolved materially. We committed in 2020 to increase our FTTP build to 20m premises by the mid-to-late 2020s and began mobilising to do so. Then in 2021 we increased and accelerated this to 25m premises by December 2026, and made the decision to fully fund the rollout at this level in November 2021. Our increased investment supports the Government's full-fibre ambitions and will be instrumental in delivering further value to our shareholders, but has meant an additional £1.3bn of capital expenditure during the 2019 ISP performance period; something which was not envisaged at the time the targets were set. While this investment will create significant value for the business and our shareholders, the return on investment will not be seen until after the 2019 ISP performance period has ended.

It is not the committee's intention to penalise management for making strategic decisions that are in the best interests of the business, our shareholders, our customers, and the country as a whole. Following a consultation with our largest shareholders, the committee approved an adjustment to the cash flow measure to reflect the increased investment. In addition, in line with our usual practice, we have made appropriate adjustments to both the cash flow and revenue measures to reflect acquisitions and divestments during the period, to ensure performance is being measured on a like-for-like basis. No adjustments were made to the TSR measure.

In aggregate, these adjustments ensure that the targets are no more or less stretching than originally intended. These adjustments reflect major Board decisions with significant impact on our targets, but no adjustments have been made for other adverse external impacts including the Government's decision on the use of Huawei equipment.

Report on directors' remuneration continued

Committee chair's letter continued

Performance against the adjusted cash flow measure was mid-way between target and stretch, while performance against both TSR and adjusted revenue measures was below threshold. Accordingly, 19.1% of the total 2019 ISP award will vest in August 2022.

 Further detail is set out on pages 105 to 106.

Policy implementation in FY23

a) Salary

Philip's salary was fixed for five years on appointment and therefore no increase will be made in FY23. Simon's salary will be increased by 2% on 1 June 2022, in line with the increase offered to our UK senior management team.

b) Pension

In line with that previously agreed when the Policy was approved at the 2020 AGM, Simon's pension allowance was reduced to 10% of salary from 1 April 2022 which now fully aligns him with the rate offered to the majority of our UK workforce. Philip's pension allowance remains at 10% of salary.

c) Annual bonus

We have reviewed the bonus scorecard measures and weightings and determined that they remain well-aligned with our strategic priorities for the coming year. The committee is satisfied that they represent a meaningful balance of financial performance measures and our broader strategic priorities, including the impact we make for our customers and society. The same group bonus scorecard applies to all eligible managers, used in tandem with divisional scorecards for colleagues in each CFU. Group and divisional measures are aligned to ensure a consistent focus across the business. Openreach managers have a similar bonus scorecard but it is based on Openreach performance only, to maintain independence and to reflect the Commitments.

For FY23, we have also introduced two underpins, based on health and safety and EBITDA performance. If either of the underpins are triggered, the committee retains the discretion to reduce the pay-out as it considers appropriate.

No changes are proposed to the structure of the annual bonus plan for FY23: the on-target and maximum opportunity will remain at 120% and 200% of salary for both Philip and Simon, with 50% deferred into shares for a period of three years.

d) Long-term incentives

In line with the Policy, awards will be made to both Philip and Simon in June 2022 under our Restricted Share Plan (RSP) to the value of 200% of salary. These will vest in three equal tranches after three, four and five years, and no tranche may be sold until year five. As per last year, awards are subject to both return on capital employed (ROCE) and environmental, social and governance (ESG) underpins (see page 109), and the committee retains ultimate discretion to adjust the vesting outcome as it considers appropriate, including to nil.

e) Chairman and non-executive director fees

As part of the annual compensation cycle the Board has reviewed the fees payable to our non-executive directors. Given these fees have also remained unchanged since 1 June 2019, on the recommendation of the chairman and the executive directors, the Board has agreed that the base fee will be increased by 2%, effective 1 June 2022, in line with the increase offered to the UK senior management team.

In FY22, the committee agreed a fee of £700,000 per annum for Adam Crozier who joined as a non-executive director and chairman designate on 1 November 2021, and became chairman on 1 December 2021. No review of the chairman's fee took place as he voluntarily waived any increase this year.

Other matters

The committee receives regular updates on HR policies and reward practices for the wider workforce as well as updates on employee relations. The committee takes account of these factors when making decisions relating to executive remuneration.

During the year, Isabel Hudson, as the designated non-executive director for workforce engagement, also fed back any comments to the committee on sentiments being raised by our colleagues in relation to the remuneration of our workforce and related decisions, as raised by the *Colleague Board* through their 'hot topics' discussions at their meetings.

We published this year's gender pay gap statistics at the end of March in our gender pay gap statement. For the second year running, we have also elected to voluntarily publish similar analysis of our ethnicity pay gap. Both analyses, alongside more detail on how we are addressing inequality and championing diversity across our business, can be found in our Diversity and Inclusion Report. The recently launched BT Group Manifesto, also reaffirms our bold targets for gender, ethnicity and disability across the organisation.

 See pages 32 to 33.

As always, the committee and I wish to maintain an open dialogue on remuneration matters with our investors and I would welcome their comments or feedback and support at the forthcoming AGM.

Sir Ian Cheshire
Chair of the Remuneration Committee
11 May 2022

Focus on remuneration

Our remuneration principles are to maintain a competitive remuneration package that promotes the long-term success of the business, avoids excessive or inappropriate risk taking and aligns management's interests with those of shareholders.

Below is how remuneration is aligned with the principles of the Code.

Clarity

- Our remuneration framework is structured to support the financial and strategic objectives of the group, aligning the interests of our executive directors with those of our shareholders
- We are committed to transparent communication with all our stakeholders, including our shareholders
- The same annual performance framework applies to all our management colleagues, including executive directors, with aligned group and divisional metrics to ensure a consistent focus.

Predictability

- The long-term RSP reflects that we operate in a tightly regulated environment, ensuring a narrower but more predictable range of reward and performance outcomes to align with our business model.

Simplicity

- We operate a simple but effective remuneration framework which is applied on a consistent basis for all employees
- The annual bonus rewards performance against key performance indicators, while the RSP provides long-term sustainable alignment with our shareholders
- There is clear line of sight for management and shareholders.

Risk

- Our incentives are structured to align with the group's risk management framework
- Three-year deferral under the annual bonus and a five-year release period on RSP awards create long-term alignment, as do our in- and post-employment shareholding requirements
- The annual bonus, deferred bonus and RSP also incorporate malus and clawback provisions, and there is overarching *Remuneration Committee* discretion to adjust formulaic outcomes.

Proportionality

- There is clear alignment between group performance, strategic progress, and remuneration outcomes for our executive directors
- Target total compensation levels are set competitively compared to other companies of similar size and complexity to ensure we can attract and retain the executives needed to deliver the business strategy. However, maximum total compensation levels are set lower than typical market practice to reflect the narrower and more predictable range of performance outcomes for BT Group
- Formulaic incentive outcomes are reviewed by the *Remuneration Committee* and may be adjusted having consideration to overall group performance and wider workforce remuneration policies and practices.

Alignment to culture

- When considering performance, the *Remuneration Committee* takes account of BT Group's values
- The *Remuneration Committee* receives regular updates on remuneration practices and policies for the wider workforce, and colleagues may provide feedback to the Board via the *Colleague Board* and the designated non-executive director for workforce engagement
- All-employee share plans encourage our colleagues to become shareholders in the business.

Directors' Remuneration Policy (Policy)

The Policy as approved by shareholders at the AGM on 16 July 2020 in accordance with section 439A of the Companies Act 2006 can be found online at [bt.com/annualreport](https://www.bt.com/annualreport)

Legacy matters

The *Remuneration Committee* can make remuneration payments and payments for loss of office outside of the Policy where the terms of the payment were agreed (i) before the Policy came into effect, provided that the terms of the payment were consistent with any applicable policy in force at the time they were agreed, or (ii) at a time when the relevant individual was not a director of BT Group plc (or another person to whom the Policy applied) and that, in the

opinion of the *Remuneration Committee*, the payment was not in consideration for the individual becoming a director of BT Group plc (or taking on such other applicable position). This includes the exercise of any discretion available to the *Remuneration Committee* in connection with such payments. For these purposes, payments include the *Remuneration Committee* satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are agreed at the time the award is granted.

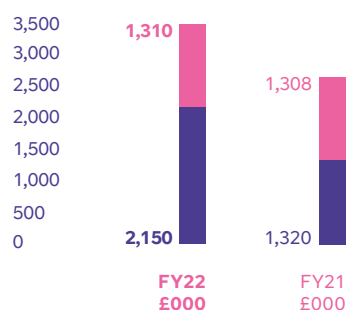
Minor amendments

The *Remuneration Committee* may make minor amendments to the arrangements for the directors as described in the Policy, for regulatory, exchange control, tax or administrative purposes, or to take account of a change in legislation.

Focus on remuneration continued

Remuneration earned in FY22

Philip Jansen
Chief executive
£000

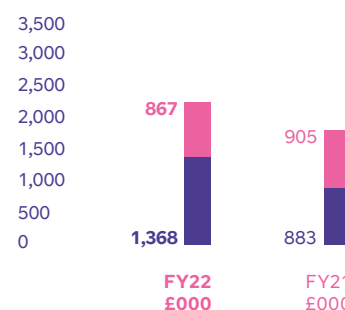


F	Base salary	1,100	1,100
	Pension allowance	110	110
	Benefits	100	98
	Total fixed pay	1,310	1,308
		FY22 £000	FY21 £000
V	Annual bonus (shares) ^a	660	1,320
	Annual bonus (cash)	660	0
	ISP (shares) ^{b,c}	830	0
	Total variable pay	2,150	1,320
	Total	3,460	2,628

a In line with the Policy, 50% of the FY22 bonus will be deferred into shares for three years. Both executive directors voluntarily agreed to defer all their FY21 bonus into shares for three years.

b The group returned below threshold performance against all the performance measures for the 2018 ISP. The awards lapsed in full in May 2021.

Simon Lowth
Chief financial officer
£000



F	Base salary	735	735
	Pension allowance	110	147
	Benefits	22	23
	Total fixed pay	867	905
		FY22 £000	FY21 £000
V	Annual bonus (shares) ^a	441	883
	Annual bonus (cash)	442	0
	ISP (shares) ^{b,c}	485	0
	Total variable pay	1,368	883
	Total	2,235	1,788

c Performance against the adjusted cash flow measure was mid-way between target and stretch, whilst performance against both the TSR and adjusted revenue measures was below threshold. Accordingly, 19.1% of the total award will vest in August 2022. Further detail is set out on [pages 105 to 106](#).

Performance outcomes in FY22

Annual bonus FY22

- Bonus was subject to seven measures of financial and non-financial performance
- Adjusted EBITDA performance was in line with our expectations and cash flow performance was strong through the second half of the year
- Performance under each of our non-financial targets was either in line with or above target, with our 5G customers measure and carbon emissions performance close to stretch
- This resulted in a formulaic outcome of 123% of target. However, the committee exercised its discretion to cap executive bonuses at 100% of target in line with the chief executive's recommendation
- In line with the Policy, 50% of the bonus will be deferred into shares for three years.

2019 ISP

- Awards are subject to three performance measures
- Performance against the adjusted cash flow targets was mid-way between target and stretch, whilst performance against both the TSR and adjusted revenue measures was below threshold. Accordingly, 19.1% of the total award will vest in August 2022. For more details see [pages 105 to 106](#).

Measure

Payout (% of max)

Adjusted EBITDA	59%
Normalised free cash flow	87%
Group Net Promoter Score (NPS)	69%
5G customers	93%
FTTP connections	65%
Carbon emissions	94%
Skills for Tomorrow	69%

Measure

Payout (% of max)

Relative total shareholder return (TSR)	0%
Normalised free cash flow	47.7%
Underlying revenue growth (including transit)	0%

Look out for these icons in the Report on directors' remuneration to distinguish the different types of pay.

F **Fixed pay**
Base salary
Pension allowance
Benefits

V **Variable pay**
Annual bonus
RSP awards
ISP awards

Implementation of the Policy in FY23

	F Fixed pay	V Annual bonus	V RSP
Philip Jansen Chief executive	Salary – £1,100,000 Benefits Pension allowance – 10% of salary	Max. opportunity – 200% of salary Target opportunity – 120% of salary	2022 award – 200% of salary
Simon Lowth Chief financial officer	Salary – £750,147 Benefits Pension allowance – 10% of salary	Max. opportunity – 200% of salary Target opportunity – 120% of salary	2022 award – 200% of salary
Performance measures	n/a	Adjusted EBITDA (35%) Normalised free cash flow (35%) Customer (10%) Converged networks (10%) Digital impact & sustainability (10%) Two underpins apply which allow the committee to exercise its discretion to reduce the scorecard result if: • there is a significant breach in health and safety • our group adjusted EBITDA target is not met.	Awards subject to two underpins over the initial three-year vesting period: • ROCE is equal to or exceeds WACC • No ESG issues resulting in material reputational damage.
Framework	n/a	• 50% of any bonus payment for FY23 will be deferred into shares for three years • Malus and clawback provisions apply • Full committee discretion available.	• Awards vest in three equal tranches after three, four and five years; no shares can be sold until year five • Malus and clawback provisions apply • Full committee discretion available.

Illustration of Policy

		FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Fixed pay	Base salary								
	Pension allowance								
	Benefits								
Annual bonus^a	50% cash								
	50% deferred shares								
RSP awards	Tranche 1								
	Tranche 2								
	Tranche 3								

50% of the bonus deferred for three years →

Underpins apply over three years

Malus and clawback up to two years after vesting of each tranche

No shares may be sold until year five

^a All seven of the annual bonus measures are linked to our key performance indicators (KPIs) as set out on [pages 44 to 45](#).

Annual remuneration report

This section summarises all elements of the directors' remuneration in FY22.

References to 'audited' refer to an audit performed in accordance with UK statutory reporting requirements.

Single total figure of remuneration (audited)

The following table sets out all emoluments received by directors for FY22 and FY21, including bonus and deferred bonus, long-term incentive plans and pension arrangements.

	Fixed pay								Variable pay							
	Basic salary and fees £000		Benefits ^a £000		Pension ^b £000		Total fixed pay £000		Annual bonus ^c £000		Long-term incentives £000		Total variable pay £000		Total £000	
	FY22	FY21	FY22	FY21	FY22	FY21	FY22	FY21	FY22	FY21	FY22 ^{d,e}	FY21	FY22	FY21	FY22	FY21
Chairman																
Adam Crozier ^f	292	0	1				293								293	0
Executive directors																
Philip Jansen	1,100	1,100	100	98	110	110	1,310	1,308	1,320	1,320	830	–	2,150	1,320	3,460	2,628
Simon Lowth	735	735	22	23	110	147	867	905	883	883	485	–	1,368	883	2,235	1,788
Non-executive directors																
Adel Al-Saleh ^g	0	–														
Ian Cheshire	144	121					144	121					–	–	144	121
Iain Conn	162	150					162	150					–	–	162	150
Isabel Hudson ^h	145	145	1	1			146	146					–	–	146	146
Matthew Key	137	134					137	134					–	–	137	134
Allison Kirkby	124	124					124	124					–	–	124	124
Leena Nair	116	116					116	116					–	–	116	116
Sara Weller	131	85					131	85					–	–	131	85
Sub-total	3,086	2,710	124	122	220	257	3,430	3,089	2,203	2,203	1,315	0	3,518	2,203	6,948	5,292
Former directors																
Jan du Plessis ^j	467	700	3	8			470	718							470	718
Mike Inglis ^k	38	136					38	136				–			38	136
Total	3,591	3,546	127	130	220	257	3,938	3,933	2,203	2,203	1,315	0	3,518	2,203	6,986	5,428

a Benefits provided to the executive directors and the chairman typically include (but are not limited to) car benefits (which may include any of a company car, cash allowance in lieu, fuel allowance and driver), personal telecommunication facilities and home security, medical and dental cover for the directors and their immediate family, life cover, professional subscriptions, personal tax advice and financial counselling up to a maximum of £5,000 (excluding VAT) a year. For Philip, the value includes a company provided car and personal driver to the value of c. £70,000 (FY21 £63,000).

b Pension allowance paid in cash for the financial year – see 'Total pension allowance' on [page 105](#).

c Annual bonus shown includes both the cash and deferred share element. The deferred element of the FY22 bonus includes the value of deferred shares to be granted in June 2022. The FY21 bonus was deferred in full into shares for three years. Further details of the deferred element are set out on [page 105](#).

d Value shown represents the estimated value of ISP awards granted in 2019 that will vest in August 2022. The estimate is based on a three-month average share price from 1 January 2022 to 31 March 2022 of 185.03p. Further details are provided on [pages 105 to 106](#).

e The ISP 2018 granted in June 2018 to Simon, and February 2019 to Philip lapsed in full in May 2021.

f Adam was appointed as a director and chairman designate on 1 November 2021 and became chairman on 1 December 2021. The figure represents his pro-rated remuneration during the year.

g Adel was appointed as a director on 15 May 2020. Under the terms of the Relationship Agreement between BT Group plc and Deutsche Telekom and Adel's letter of appointment, no remuneration is payable for this position.

h Value shown relates to reimbursement of reasonable travelling and other expenses (including any relevant tax) incurred in carrying out their duties.

j Jan stepped down as a director and chairman on 30 November 2021 and the figure represents his pro-rated remuneration during the year.

k Mike stepped down as a director on 15 July 2021 and the figure represents his pro-rated remuneration during the year.

Additional disclosures relating to the single figure table (audited)

Salaries and fees

Executive directors' salaries are reviewed annually, with any increases typically effective from 1 June. No salary increases were made for our UK management population in June 2021 and accordingly Simon's base salary remained at £735,438. Philip's salary of £1,100,000 was fixed for five years at the time of his appointment in January 2019.

Adam joined on 1 November 2021 as a non-executive director and chairman designate and became chairman on 1 December 2021. The committee agreed a fee of £700,000 per year on appointment.

The fees for non-executive directors reflect committee-related or other additional responsibilities, including on a pro-rated basis for any appointments during the year. A full breakdown of non-executive director fees is set out on [page 109](#).

Pension allowance

Executive directors receive an annual cash allowance, which can be put towards the provision of retirement benefits.

Philip received an annual allowance of 10% of salary. This is aligned with the contribution rate available to the majority of our UK employees. We also provide death in service cover consisting of a lump sum equal to four times his salary.

In line with that previously agreed when the Policy was approved at the 2020 AGM, in FY22, Simon received an annual allowance of 15% of salary, which was reduced to 10% of salary effective 1 April 2022 to align with the rate for majority of UK employees. We also provide death in service cover consisting of a lump sum equal to four times his salary plus a dependants' pension equal to 30% of his capped salary.

Annual bonus

Both executive directors were eligible for an on-target bonus in respect of FY22 of 120% of salary with a maximum opportunity of 200% of salary. The annual bonus is based on performance against a scorecard of seven key financial and non-financial measures linked to our KPIs as set out on [pages 44 to 45](#).

Category	Measure	Weighting	Threshold	Target	Stretch	Actual	Payout (% of max)
Financial	Adjusted EBITDA (£m)	35%	7,385	7,585	7,785	7,577	59%
	Normalised free cash flow (£m)	35%	1,142	1,292	1,442	1,392	87%
Customer	NPS	10%	0	100	200	122	69%
Converged networks	5G customers (000s)	5%	4,418	4,909	5,384	5,299	93%
	FTTP connections (000s)	5%	1,574	1,749	1,924	1,772	65%
Digital impact & sustainability	Carbon emissions (%)	5%	(51)	(53)	(55)	(54.7)	94%
	Skills for Tomorrow (000s)	5%	600	800	1,200	893	69%
Formulaic outcome							74% of max (123% of target)

When determining the overall performance and bonus pay-outs, the committee also considers a number of other factors including share price performance, the external environment and overall affordability. Despite the formulaic outcome of the final bonus scorecard being 123%, the committee exercised its discretion to cap the bonuses of our executive directors at 100%, in line with the chief executive's recommendation. Although we have delivered against our financial goals, held to our commitment to reinstate the dividend in FY22, and delivered a competitive salary review for our colleagues, the committee believes that this is a better reflection of the overall performance of the business and the wider stakeholder experience.

The final bonus outturns for the executive directors are set out in the table below:

	Formulaic outcome	Following discretion	% of max	Value
Philip Jansen	123% of target	100% of target	60%	£1,320,000
Simon Lowth	123% of target	100% of target	60%	£882,526

As per the Policy, 50% of the FY22 annual bonus will be deferred into shares for three years.

2019 ISP

The ISP is a conditional share award. The committee assesses the performance conditions to 31 March 2022 and the awards would ordinarily vest in June 2022. The performance conditions are based 40% on relative TSR, 40% on normalised free cash flow, and 20% on growth in underlying revenue (including transit) over a three-year performance period from 1 April 2019 to 31 March 2022.

Since the performance targets were set, we have made a number of critical strategic decisions which were not foreseen in our original business plan. Most notably, this includes our commitment to expand the rollout of our full-fibre capability to 20m premises (in 2020) and then further to 25m premises by December 2026 (in 2021) with the decision to fully fund this being made in November 2021. Our increased investment supports the Government's full fibre ambitions and will be instrumental in delivering further value to our shareholders, but has meant an additional £1.3bn of capital expenditure during the 2019 ISP performance period; something which was not envisaged at the time the targets were set. While this investment will create significant value for the business and our shareholders, the return on investment will not be seen until after the 2019 ISP performance period has ended.

Following a consultation with our largest shareholders, the committee approved an adjustment to the cash flow measure to reflect the increased investment. In addition, in line with our usual practice, we have made appropriate adjustments to both the cash flow and revenue measures to reflect acquisitions and divestments during the period to ensure performance is being measured on a like-for-like basis. No adjustments were made to the TSR measure. In aggregate, this ensures that the targets are no more or less stretching than originally intended.

As set out in the table overleaf, performance against the adjusted cash flow targets was mid-way between target and stretch, while performance against both the TSR and adjusted revenue measures was below threshold. Accordingly, 19.1% of the total award will vest in August 2022.

Annual remuneration report continued

Measure	Weighting	Threshold	Maximum	Actual	Payout (% of max)
Relative TSR (rank)	40%	8th	4th	12th	0%
Adjusted normalised free cash flow (£bn)	40%	£4.47	£5.78	£4.86	47.7%
Adjusted underlying revenue growth (including transit) (%)	20	(3.5)	(0.5)	(11)	0%
Vesting outcome					19.1%

Awards granted during the year (audited)

2021 RSP

The 2021 RSP awards were made in June 2021 as set out below and on [page 108](#). An award of 200% of salary was made to both executive directors in line with the normal Policy level. The face value was based on the BT Group plc share price at the date of grant of 203.16p. The grant price is calculated using the average middle-market price of a BT Group plc share for the three dealing days prior to grant.

Director	Date of award	RSP award (shares)	Face value of award
Philip Jansen	24 June 2021	1,082,854	£2,200,000
Simon Lowth	24 June 2021	723,974	£1,470,825

These awards are conditional share awards. Two underpins apply over the initial three-year vesting period:

- ROCE is equal to or exceeds WACC over the same period
- there must have been no ESG issues which have resulted in material reputational damage for the group.

Should one or both underpins not be met, the committee may at its discretion reduce the number of shares vesting, including to nil.

Awards will vest in three equal tranches after three, four and five years, with an additional holding period such that no shares may be sold until year five. At vesting, additional shares representing the value of reinvested dividends on the underlying shares are added.

Malus and clawback provisions apply as set out in the Policy, and the committee retains the ultimate discretion to adjust vesting levels to ensure alignment with our overall performance.

Details of all interests under the RSP are set out on [page 108](#).

2021 deferred shares

The full bonus awarded for FY21 was deferred into shares as voluntarily agreed by the executive directors. The awards were made under the deferred bonus plan (DBP) in June 2021 as set out below and on [page 108](#). The face value was based on the BT Group plc share price at the date of grant of 203.16p. The grant price is calculated using the average middle-market price of a BT Group plc share for the three dealing days prior to grant.

Director	Date of award	Number of deferred shares	Face value of award
Philip Jansen	24 June 2021	649,712	£1,320,000
Simon Lowth	24 June 2021	434,384	£882,526

Deferred shares are not subject to performance conditions and have a three-year vesting period. Details of all interests in deferred shares are set out on [page 108](#).

At vesting, additional shares representing the value of reinvested dividends on the underlying shares are added.

Payments for loss of office (audited)

No payments were made to directors during the year for loss of office.

Former directors (audited)

No payments were made to former directors during the year.

Directors' share ownership (audited)

The committee believes that the interests of the executive directors should be closely aligned with those of shareholders. The aim is to encourage the build-up of a meaningful shareholding in BT Group plc over time by retaining net shares received through the executive share plans or from market purchases.

The shareholding requirement for both executive directors under the Policy is 500% of salary. Executive directors are expected to meet this requirement within five years of the approval of the Policy or, in the case of any new executive directors appointed, within five years of their date of appointment.

The shareholding requirement continues to apply in full for two years post-cessation of employment (or the total number of shares held at cessation, if lower). The post-cessation shareholding requirement will be calculated and expressed as a fixed number of shares by reference to the closing BT Group plc share price on the day immediately prior to the cessation date. The requirement is fixed as this number of shares for a period of two years and compliance will be measured at cessation and annually thereafter. In enforcing continued compliance post-cessation, the committee may request that the executive director transfers any shares subject to the shareholding requirement which we will hold in trust until such time that they no longer need to be retained.

We encourage the chairman and independent non-executive directors to purchase, on a voluntary basis, BT Group plc shares with an aggregate value of £5,000 on average each year (based on acquisition price) to further align the interests of non-executive directors with those of our shareholders. They are asked to hold these shares until they cease being a member of the Board.

This policy does not apply to the Deutsche Telekom nominated representative director appointed to the Board as a non-independent, non-executive director under the terms of the EE acquisition in January 2016. This helps avoid any conflict of interest.

Directors' interests at 31 March 2022 or on cessation (audited)

The following tables show the beneficial interests in BT Group plc shares of directors and persons closely associated as at 31 March 2022 (or at the point of leaving for directors who left during the year).

The first table includes interests held by the executive directors under the BT Group plc's share plans. The numbers represent the maximum possible vesting levels. As set out on [pages 105 to 106](#), 19.1% of the 2019 ISP awards will vest in August 2022. Full details

of all DBP, RSP and ISP awards, including performance periods and vesting conditions, are set out on [page 108](#).

For executive directors we use the average BT Group plc share price over the preceding 12 months (or the share price at acquisition/vesting date if higher) to determine whether the minimum shareholding requirement has been reached.

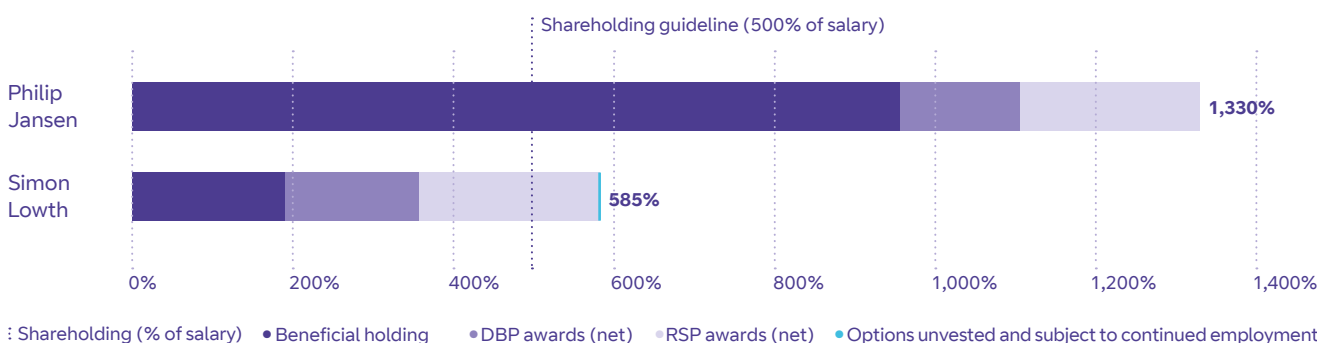
During the period 1 April 2022 to 11 May 2022, there were no movements in directors' beneficial holdings or other interests in shares. The directors, as a group, beneficially own less than 1% of BT Group plc's shares.

Executive directors	Number of shares owned outright at 31 March 2022	RSP and DBP ^a	ISP ^b	Options ^c	Shareholding requirement (% of salary)	Current shareholding (% of salary)
Philip Jansen	6,146,227	2,389,562	2,347,782	247	500%	1,330%
Simon Lowth	698,492	1,672,964	1,373,469	11,222	500%	585%

a Subject to continued employment and, for the RSP, two underpins over the initial three year period.

b Subject to performance.

c Includes interests in saveshare, a HMRC-approved all-employee plan and yourshare, a HMRC-approved share incentive plan.



	Beneficial holding owned outright at 1 April 2021	Beneficial holding owned outright at 31 March 2022
Chairman		
Adam Crozier ^a	–	62,500
Non-executive directors		
Adel Al-Saleh	0	0
Ian Cheshire	19,646	19,646
Iain Conn	69,442	69,442
Isabel Hudson	24,090	24,090
Matthew Key	161,686	161,686
Allison Kirkby	75,000	75,000
Leena Nair	50,000	50,000
Sara Weller	7,000	37,000
Former directors		
Jan du Plessis ^b	1,004,138	1,005,222
Mike Inglis ^c	29,091	29,091
Total	1,440,093	1,533,677

a Adam was appointed as a director on 1 November 2021.

b Jan stepped down as a director on 30 November 2021 and the number reflects his holding at that date.

c Mike stepped down as a director on 15 July 2021 and the number reflects his holding at that date.

Annual remuneration report continued

Outstanding share awards at 31 March 2022 (audited)

	1 April 2021	Awarded/ granted	Dividends re-invested	Vested	Lapsed	Total number of award shares @ 31 March 2022	Vesting date	Price at grant	Market price at date of vesting	Market price at date of exercise	Monetary value of vested award £000
Philip Jansen											
DBP 2019	64,959	–	776	–	–	65,735	01/08/2022	207.45p	–	–	–
DBP 2020	1,106,763	–	13,236	–	–	1,119,999	01/08/2023	119.27p	–	–	–
DBP 2021 ^a	–	649,712	7,770	–	–	657,482	24/06/2024	203.16p	–	–	–
ISP 2018 ^b	1,576,404	–	–	–	1,576,404	–	31/03/2021	233.56p	–	–	–
ISP 2019 ^c	2,320,036	–	27,746	–	–	2,347,782	31/03/2022	207.45p	–	–	–
RSP 2020 ^d	1,658,656	–	19,836	–	–	1,678,492	03/08/2023	106.11p	–	–	–
RSP 2021 ^e	–	1,082,854	12,950	–	–	1,095,804	24/06/2024	203.16p	–	–	–
yourshare 2021 ^f	–	247	–	–	–	247	24/06/2024	202.70p	–	–	–
Simon Lowth											
DBP 2018	167,480	–	–	167,480	–	–	01/08/2021	211.01p	172.54p	–	289
DBP 2019	172,515	–	2,063	–	–	174,578	01/08/2022	207.45p	–	–	–
DBP 2020	754,759	–	9,026	–	–	763,785	01/08/2023	119.27p	–	–	–
DBP 2021 ^a	–	434,384	5,195	–	–	439,579	24/06/2024	203.16p	–	–	–
ISP 2018 ^g	1,390,845	–	–	–	1,390,845	–	31/03/2021	211.01p	–	–	–
ISP 2019 ^c	1,357,237	–	16,232	–	–	1,373,469	31/03/2022	207.45p	–	–	–
RSP 2020 ^d	1,108,944	–	13,262	–	–	1,122,206	03/08/2023	106.11p	–	–	–
RSP 2021 ^e	–	723,974	8,658	–	–	732,632	24/06/2024	203.16p	–	–	–
saveshare (2019) ^h	10,975	–	–	–	–	10,975	01/08/2024	163.92p	–	–	–
yourshare 2021 ^f	–	247	–	–	–	247	24/06/2024	202.70p	–	–	–

a Awards granted on 24 June 2021. The number of shares subject to awards was calculated using the average middle market price of a BT Group plc share for the three days prior to grant. Awards of deferred shares in respect of 2022 will be calculated using the average middle market price of a BT Group plc share for the three dealing days prior to grant.

b Award granted on 1 February 2019. The number of shares subject to award was calculated using the average middle-market price of a BT Group plc share for the three dealing days prior to grant of 233.56p. 40% of each award is linked to TSR compared with a group of 17 companies, 40% is linked to a three-year normalised free cash flow measure and 20% to a measure of underlying revenue growth (excluding transit) over three years. Performance against the TSR, normalised free cash flow and revenue targets resulted in the threshold targets not being met and none of the shares vesting under the 2018 ISP. The award lapsed in full in May 2021.

c Awards granted on 19 June 2019. The number of shares subject to award was calculated using the average middle-market price of a BT Group plc share for the three dealing days prior to grant of 207.45p. 40% of each award is linked to TSR compared with a group of 16 companies, 40% is linked to a three-year normalised free cash flow measures and 20% to a measure of underlying revenue growth (including transit) over three years. The award will vest at 19.1% in August 2022 as set out on [pages 105 to 106](#).

d Awards granted on 3 August 2020. The number of shares subject to awards was calculated using the average middle market price of a BT Group plc share for the three dealing days prior to grant. Awards will vest in three equal tranches after three, four and five years. A holding period will apply such that no shares may be sold until year five. Two underpins will apply over the initial three-year vesting period as set out on [page 109](#).

e Awards granted on 24 June 2021. The number of shares subject to awards was calculated using the average middle market price of a BT Group plc share for the three dealing days prior to grant. Awards will vest in three equal tranches after three, four and five years. A holding period will apply such that no shares may be sold until year five. Two underpins will apply over the initial three-year vesting period as set out on [page 109](#).

f Awards granted on 24 June 2021 under the free share element of the BT Group plc Employee Share Investment Plan in which all eligible employees of the group were granted £500 worth of shares.

g Award granted on 19 June 2018. The number of shares subject to award was calculated using the average middle-market price of a BT Group plc share for the three dealing days prior to grant of 211.01p. 40% of each award is linked to TSR compared with a group of 17 companies, 40% is linked to a three-year normalised free cash flow measures and 20% to a measure of underlying revenue growth (excluding transit) over three years. Performance against the TSR, normalised free cash flow and revenue targets resulted in the threshold targets not being met and none of the shares vesting under the 2018 ISP. The award lapsed in full in May 2021.

h Option granted on 14 June 2019 under the employee saveshare scheme, in which all eligible employees of the group are entitled to participate.

Implementation of Policy in FY23

Base salary

Philips base salary of £1,100,000 was agreed on appointment in January 2019 and is fixed for five years. Therefore, there is no increase for FY23.

In line with our UK senior management population, Simon will receive a 2% salary increase effective 1 June 2022.

Director	FY23	
	Base salary	% change
Philip Jansen	£1,100,000	0%
Simon Lowth	£750,147	2%

Benefits

For executive directors, the committee has set benefits in line with the Policy. No changes are proposed to the benefit framework for FY23.

Pension allowance

In line with the rate offered to the majority of our UK workforce, both executive directors will receive an annual allowance equal to 10% of salary in lieu of pension provision for FY23.

Annual bonus

Both executive directors are eligible for an on-target and maximum bonus payment of 120% and 200% of salary. In line with the Policy, 50% of any bonus payable will be deferred into shares for three years.

The committee has reviewed in full the measures, weightings and targets used in the annual bonus scorecard and agreed that the measures and weightings remain appropriate and aligned to our strategy for FY23.

The FY23 annual bonus structure measures and weightings are set out below.

Category	Measure	Weighting
Financial	Adjusted EBITDA	35%
	Normalised free cash flow	35%
Customer	NPS	10%
Converged networks	5G customers – the number of customers on our 5G network	5%
	FTTP connections – the number of connections in the Openreach FTTP network	5%
Digital impact & sustainability	Carbon emissions – progress towards an 87% reduction in carbon emissions intensity by the end of March 2031	5%
	Skills for Tomorrow – progress towards our ambition to reach 25m people in the UK with help to improve their digital skills by end of March 2026	5%

All seven of the annual bonus measures are linked to our KPIs as set out on [pages 44 to 45](#).

In addition to the annual bonus scorecard, two underpins apply, which allow the committee to exercise its discretion to reduce the pay-out result if:

- there is a significant breach in health and safety
- our group Adjusted EBITDA target is not met.

We do not publish details of the targets in advance as these are commercially confidential. We will publish achievement against the targets at the same time as we disclose bonus payments in the 2023 Report on directors' remuneration so shareholders can evaluate performance against the targets.

RSP

Both executive directors will be granted an award under the RSP in June 2022 to the value of 200% of salary.

When considering grant levels each year, the committee takes account of share price performance over the preceding year. In 2021, the level of awards granted was in line with the normal Policy level of 200% of salary. Following review, the committee has agreed that awards will be granted to both executive directors this year at the normal Policy level of 200% of salary.

Two underpins will apply over the initial three-year vesting period, as follows:

- ROCE is equal to or exceeds WACC over the same period
- there must have been no ESG issues which have resulted in material reputational damage for the group.

Should one or both underpins not be met, the committee may at its discretion reduce the number of shares vesting, including to nil.

Awards will vest in three equal tranches after three, four and five years, with an additional holding period such that no shares may be sold until year five. At vesting, additional shares representing the value of reinvested dividends on the underlying shares are added.

Malus and clawback provisions and overarching committee discretion applies, as set out in the Policy.

Chairman and non-executive director remuneration

The fees for non-executive directors have been reviewed by the Board, taking into consideration the role and requirements of the group, together with the fees paid to non-executive directors at companies of a similar size and complexity and any salary increases for the UK management population. In line with the increase for the UK senior management population, on the recommendation of the chairman and the executive directors, the Board agreed to increase the base fee for non-executive directors by 2% to £78,540 per year (from £77,000) effective as of 1 June 2022. No other fee changes were agreed as part of the review.

There are additional fees for membership and chairing a board committee, details of which are set out in the table below:

Committee	Chair's fee	Member's fee
Audit & Risk	£35,000	£25,000
BT Compliance	£25,000	£12,000
Digital Impact & Sustainability	£14,000	£8,000
Investigatory Powers Governance	n/a ^a	£8,000
Nominations	n/a ^a	£10,000
Remuneration	£30,000	£15,000

^a Where the chairman or chief executive acts as chair of a board committee, no additional committee chair fee is payable.

The senior independent director receives an additional fee of £27,000 per annum.

The designated non-executive director for workforce engagement receives an additional fee of £10,000 per annum.

The committee agreed a fee of £700,000 per year, on the chairman's appointment as chairman designate on 1 November 2021. The chairman has voluntarily decided to waive any fee increase for FY23.

No element of non-executive director remuneration is performance related. Neither the chairman nor the non-executive directors participate in our bonus or employee share plans and nor are they members of any of the group pension schemes.

Annual remuneration report continued

Other remuneration matters

Advisers

During the year, the committee received independent advice on executive remuneration matters from Deloitte LLP. Deloitte received £98,155 (excluding VAT) in fees for these services.

The fees are charged on a time-spent basis in delivering advice. That advice materially assisted the committee in their consideration of matters relating to executive remuneration and the Policy.

Deloitte is a founder member of the Remuneration Consultants Group and as such, voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK.

In addition, during FY22, Deloitte provided the group with advice on corporate and indirect taxes, assistance with regulatory, risk and compliance issues and additional consultancy services.

Dilution

We use both treasury shares and shares purchased by the BT Group Employee Share Ownership Trust (the Trust) to satisfy our all-employee share plans and executive share plans. Shares held in the Trust do not have any voting rights.

As at 31 March 2022, shares equivalent to 4.16% (FY21: 5.12%) of the issued share capital (excluding treasury shares) would be required to satisfy all outstanding share options and awards. Of these, we estimate that for FY23, shares equivalent to approximately 0.53% (FY22: 0.26%) of the issued share capital (excluding treasury shares) will be required to satisfy the all-employee share plans.

Previous AGM voting outcomes

The table below sets out the previous votes cast at the AGM in respect of the Annual remuneration report and the Policy.

	For % of votes cast/ Number	Against % of votes cast/ Number	Withheld votes/ Number
Report on directors' remuneration at the 15 July 2021 AGM	95.92	4.08	
	6,634,876,487	282,321,890	1,975,431
Policy at the 16 July 2020 AGM	95.04	4.96	
	6,036,920,089	315,057,559	4,101,574

Withheld votes are not counted when calculating voting outcomes.

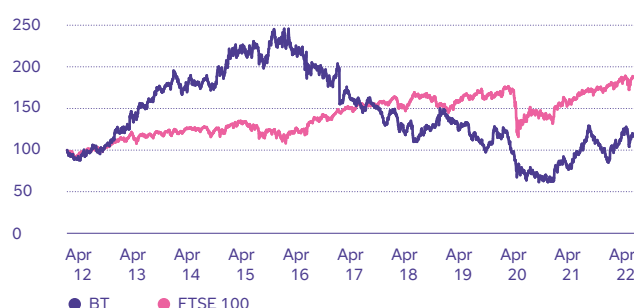
Committee evaluation FY22

This year we undertook an internal Board and committee evaluation, details of which can be found on [page 84](#).

Comparison of chief executive remuneration to TSR (unaudited)

TSR is the measure of the returns that a company has provided for its shareholders, reflecting share price movements and assuming reinvestment of dividends. The graph below illustrates the performance of BT Group plc measured by TSR relative to a broad equity market index over the past ten years. We consider the FTSE 100 to be the most appropriate index against which to measure performance, as BT Group plc has been a member of the FTSE 100 throughout the ten-year period.

BT Group plc's TSR performance vs the FTSE 100



Source: Datastream.

History of chief executive remuneration

Year end	Chief executive	Total remuneration £000	Annual bonus (% of max)	ISP vesting (% of max)
2022	Philip Jansen	3,460	60%	19.1%
2021	Philip Jansen	2,628	60%	0%
2020	Philip Jansen	3,248	50%	n/a
2019	Philip Jansen ^a	725	56%	n/a
	Gavin Patterson ^b	1,719	28%	0%
2018	Gavin Patterson	2,307	54%	0%
2017	Gavin Patterson	1,345	0%	0%
2016	Gavin Patterson	5,396	45%	82.0%
2015	Gavin Patterson ^b	4,562	58%	67.4%
2014	Gavin Patterson ^c	2,901	62%	78.7%
	Ian Livingston ^d	4,236	35%	63.4%
2013	Ian Livingston	9,402	65%	100%

^a Philip was appointed as a director on 1 January 2019 and became chief executive from 1 February 2019. His first ISP award was made in February 2019.

^b Gavin stood down as chief executive at midnight on 31 January 2019 and Philip took over from 1 February 2019.

^c The total remuneration figure includes the ISP award as CEO BT Retail and the first award as chief executive, granted in 2013.

^d Ian stepped down on 10 September 2013 and Gavin took over from that date.

Directors' service agreements and letters of appointment

The following table sets out the dates on which directors' service agreements/initial letters of appointment commenced and termination provisions:

Executive directors

	Commencement date	Termination provisions
Philip Jansen	1 January 2019	Directors' service agreements do not contain fixed term periods and are terminable by BT Group plc on 12 months' notice and by the director on six months' notice.
Simon Lowth	6 July 2016	

Chairman and independent non-executive directors

	Commencement date	Termination provisions
Adam Crozier	1 November 2021	Letters of appointment do not contain fixed term periods and are terminable by either party by three months' written notice.
Ian Cheshire	16 March 2020	
Iain Conn	1 June 2014	
Isabel Hudson	1 November 2014	
Matthew Key	25 October 2018	
Allison Kirkby	15 March 2019	
Leena Nair	10 July 2019	
Sara Weller	16 July 2020	

Non-independent, non-executive director

	Commencement date	Termination provisions
Adel Al-Saleh	15 May 2020	Appointed as a non-independent, non-executive director under the terms of the Relationship Agreement between BT Group plc and Deutsche Telekom. The appointment is terminable immediately by either party.

There are no other service agreements, letters of appointment or material contracts, existing or proposed, between BT Group plc and any of the directors. There are no arrangements or understandings between any director or executive officer and any other person pursuant to which any director or executive officer was selected to serve. There are no family relationships between the directors.

Independent non-executive directors' letters of appointment

Each independent non-executive director has an appointment letter setting out the terms of his or her appointment. We ask each non-executive director to allow a minimum commitment of 22 days each year, subject to committee responsibilities, and to allow slightly more in the first year in order to take part in the induction programme. The actual time commitment required in any year may vary depending on business and additional time may be required during periods of increased activity.

Inspection by the public

The service agreements and letters of appointment are available for inspection by the public at BT Group plc's registered office.

Remuneration in context

Consideration of colleague and stakeholder views

Our colleagues are vital to our business and we believe in fairness throughout the group. There are several general reward principles which we apply at all levels:

- We will provide a competitive package with reference to the relevant market for each colleague
- We will ensure colleagues can share in the success of the business, and through the operation of all-employee share plans encourage colleagues to become shareholders
- Where appropriate, variable remuneration is provided to incentivise employees towards driving the strategic aims of the business. Performance is based on both individual performance and the performance of the group, using a consistent framework for our senior management team and the majority of other colleagues
- We offer a range of employee benefits, many of which are available to all colleagues
- We aim for transparency and a fair cascade of remuneration throughout the group
- Employment conditions for all colleagues reflect our values and are commensurate with those of a large publicly listed company, including high standards of health and safety, a strong commitment to diversity and inclusion and wellbeing.

The committee supports fairness and transparency of remuneration arrangements and the Policy has been designed to align with the remuneration philosophy and principles that underpin remuneration across the wider group. To support this, the committee receives regular updates on HR policies and reward practices for the wider workforce as well as updates on employee relations.

Whilst the committee does not directly consult with our employees as part of the process of determining executive pay, the Board does receive feedback from employee surveys that take into account remuneration throughout the organisation.

The designated non-executive director for workforce engagement also updates the committee on sentiments being raised by our colleagues in relation to the remuneration of our workforce and related decisions, as raised by the *Colleague Board* through their 'hot topics' discussions.

When setting executive directors' remuneration, the committee considers the remuneration of other senior managers and colleagues in the group more generally to ensure that arrangements for executive directors are appropriate in this context. When determining salary increases for executive directors, the committee considers the outcome of the wider pay review for the group.

Chief executive pay ratio

The table below sets out the chief executive pay ratios as at 31 March 2022, as well as those reported in respect of the prior three years. This report will build up over time to show a rolling ten-year period.

The ratios compare the single total figure of remuneration of the chief executive with the equivalent figures for the UK lower quartile (P25), median (P50) and upper quartile (P75) employees.

A significant proportion of the chief executive's remuneration is delivered through long-term incentives, where awards are linked to share price movements over the longer term. This means that the ratios will depend significantly on long-term incentive outcomes and may fluctuate from year to year – for example, a higher total remuneration ratio was exhibited in 2020 due to the vesting of the chief executive's Worldpay buyout award and in 2022 due to the partial vesting of the 2019 ISP award. We believe that these ratios are appropriate given the size and complexity of the business, and are a fair reflection of our remuneration principles and practices.

We have used the 'Option B' methodology (based on gender pay reporting), as the most robust way to identify the individual reference points within an organisation with multiple operating segments.

Total remuneration

	Chief executive	Employee remuneration			Pay ratio		
		P25	P50	P75	P25	P50	P75
2019	£2,444,000	£34,281	£41,477	£51,594	71:1	59:1	47:1
2020	£3,248,012	£34,881	£42,173	£51,351	93:1	77:1	63:1
2021	£2,628,107	£35,569	£41,600	£50,391	74:1	63:1	52:1
2022	£3,459,514	£35,722	£40,059	£49,488	97:1	86:1	70:1

Base salary

	Chief executive	Employee remuneration			Pay ratio		
		P25	P50	P75	P25	P50	P75
2019	£1,222,000	£30,090	£35,918	£41,740	37:1	31:1	27:1
2020	£1,100,000	£31,144	£37,321	£42,800	35:1	29:1	26:1
2021	£1,100,000	£31,842	£35,606	£42,836	35:1	31:1	26:1
2022	£1,100,000	£31,637	£35,017	£43,908	35:1	31:1	25:1

The P25, P50 and P75 employees were identified from our gender pay reporting data, based on the April snapshot period at the start of each respective year. We then identified the 80 employees above and below each of the 'P' points to form enlarged groups. This approach is thought to be an appropriate representation – while there is a reasonable level of consistency

given the size of the UK population, this methodology reduces volatility in the underlying data, and helps account for differences in the gender pay and pay ratio calculation methodologies. Other than the exclusion of a small number of data points for leavers and divestments, no other adjustments were made to the underlying data.

The total FTE remuneration paid during the year in question for each employee in each of the groups was then calculated, on the same basis as the information set out in the 'single figure' table for the chief executive. Bonus payments in respect of each year have been determined based on the latest available information at the time of analysis. The median total remuneration figure for each group was then used to determine the three ratios.

Percentage change in remuneration of the executive and non-executive directors and all employees

BT Group plc, our parent company, employs our chairman, executive and non-executive directors only, and as such no meaningful comparison can be drawn based on the parent company alone, as is required by the reporting regulations.

Instead, we have chosen to present a comparison with our UK management and technical employee population, comprising around 25,000 colleagues.

We believe this is the most meaningful comparison given the nature of our workforce, as this group has similar performance-related pay arrangements as our executive directors. This is also consistent with prior year disclosures.

The salary/fee levels set out in the table below are in accordance with the Policy. Any increase in fees paid to the non-executive directors represents a change in role (and accordingly fees payable) over the relevant period. Any increase in benefits is as a result of travel and other expenses further to returning to face-to-face Board and committee meetings for the majority of FY22 whereas in FY21 these were all held remotely by video conference due to the pandemic.

	FY22 (% change)			FY21 (% change)		
	Salary/fees	Benefits	Annual bonus	Salary/fees	Benefits	Annual bonus
Chairman						
Adam Crozier ^a	–	–	–			
Executive directors						
Philip Jansen	0%	2%	0%	0%	(14)%	0%
Simon Lowth ^b	0%	(4)%	0%	0%	(5)%	(2)%
Non-executive directors						
Adel Al-Saleh ^c	–	–	–	–	–	–
Ian Cheshire	8%	0%	–	19%	–	–
Iain Conn	0%	0%	–	33%	–	–
Isabel Hudson	0%	0%	–	4%	(66)%	–
Matthew Key	2%	0%	–	13%	–	–
Allison Kirkby	0%	0%	–	6%	–	–
Leena Nair	0%	0%	–	3%	–	–
Sara Weller ^d	0%	0%	–	–	–	–
UK management colleagues	0%	0%	0%	0%	0%	18%

a Adam joined during FY22 and so no relevant comparison can be presented.

b Simon's reduction in benefits reflects the year on year reduction in pension allowance.

c Under the terms of the Relationship Agreement between BT Group plc and Deutsche Telekom and Adel's letter of appointment, no remuneration is payable for this position.

d Sara joined during the prior financial year and so any increase has been determined on a full-year equivalent basis.

Relative importance of the spend on pay

The table below shows the percentage change in total remuneration paid to all employees compared to expenditure on dividends and share buybacks.

Area	FY22 (£m)	FY21 (£m)	% change
Remuneration paid to all employees	4,845	5,162	(6)%
Dividends/share buybacks ^a	184	14	1,214%

a Includes share purchases by the Trust as set out in note 21 to the consolidated financial statements.

Diversity and inclusion

It's important that our colleagues reflect the diversity of our customers, and that all our colleagues are given the opportunities to succeed. Across our business, our Diversity and Inclusion Centre of Expertise, comprising of subject matter experts and support colleagues, are partnering with workstream leads to ensure that we address this issue in an evidenced-based manner, with the broadest reach and widest impact.

Our 2022 Diversity and Inclusion Report includes details of our UK gender and ethnicity pay gaps, as well as the demographics of our

workforce and progress towards our diversity and inclusion targets and ambitions including detailed information on our initiatives and activities to reduce any gap. It also details the breadth of work taking place across the group to increase all forms of diversity within our workforce and to ensure we have an inclusive culture.

 Our Diversity and Inclusion Report is available on our website bt.com/diversity-and-inclusion

Gender pay gap reporting

At a group-level, our median hourly pay gap between male and female colleagues has increased to 6.7% (5% in 2020). This remains below the telecommunications industry median of 19.6% (ONS provisional), and the UK national median of 15.4%.

 Our Gender Pay Gap statement sets out the key information required under legislation and is available on our website bt.com/genderpaygap

Sir Ian Cheshire
Chair of the Remuneration Committee
11 May 2022

Statement of directors' responsibilities in respect of the Annual Report and the financial statements

The directors are responsible for preparing the Annual Report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with UK-adopted international accounting standards and with the requirements of the Companies Act 2006.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company, and of the group's profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently
- make judgements and estimates that are reasonable, relevant, reliable and prudent
- state whether the group financial statements have been prepared in accordance with international accounting standards, as adopted by the UK
- state whether applicable UK accounting standards have been followed with regards to the parent company financial statements, subject to any material departures disclosed and explained in the parent company financial statements
- assess the group and parent company's ability to continue as a going concern and disclose, as applicable, matters related to going concern
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy, at any time, the financial position of the parent company, and enable them to ensure that its financial statements comply with the 2006 Act. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing an annual strategic report, directors' report, report on directors' remuneration and corporate governance statement that comply with such law and regulation.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the BT Group website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the Board in respect of the annual financial report

We confirm that, to the best of our knowledge:

- the **financial statements**, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the group and the undertakings included in the consolidation taken as a whole
- the **Strategic report** and the **Report of the directors** include a fair review of the development and performance of the business and the position of the group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position, performance, business model and strategy.

This responsibility statement was approved by the Board on 11 May 2022 and was signed on its behalf by:

Philip Jansen
Chief Executive

Simon Lowth
Chief Financial Officer

Report of the directors

The directors present the **Report of the directors**, together with audited financial information for the year ended 31 March 2022. The **Report of the directors** also encompasses the entirety of our **Corporate governance report** on **pages 71 to 120** for the purpose of section 463 of the Companies Act 2006 (the 2006 Act). The **Report of the directors** together with the **Strategic report** on **pages 1 to 70** form the Management Report for the basis of DTR 4.1.5R.

Critical accounting estimates, key judgements and significant accounting policies

Our critical accounting estimates, key judgements and significant accounting policies conform with IFRSs as adopted by the EU and IFRSs issued by the International Accounting Standards Board (IASB) and are set out on **pages 135 and 136** of the consolidated **financial statements**. The directors have reviewed these policies and applicable estimation techniques and have confirmed that they are appropriate for the preparation of the FY22 consolidated financial statements.

Disclosure of information to the auditor

As far as each of the directors is aware, there is no relevant audit information (as defined by section 418(3) of the 2006 Act) that hasn't been disclosed to the auditor. Each of the directors confirms that all steps have been taken that ought to have been taken to make them aware of any relevant audit information and to establish that the auditor has been made aware of that information.

Going concern

In line with IAS 1 'Presentation of financial statements', and revised FRC guidance on 'risk management, internal control and related financial and business reporting', management has taken into account all available information about the future for a period of at least, but not limited to, 12 months from the date of approval of the financial statements when assessing the group's ability to continue as a going concern.

The **Strategic report** on **pages 1 to 70** includes information on the group structure, strategy and business model, the performance of each customer-facing unit and the impact of regulation and competition. The **Group performance** section on **pages 46 to 53** includes information on our group financial results, financial outlook, cash flow and net debt, and balance sheet position. Notes 24, 25, 26 and 28 of the consolidated **financial statements** include information on the group's investments, cash and cash equivalents, borrowings, derivatives, financial risk management objectives, hedging policies and exposure to interest, foreign exchange, credit, liquidity and market risks.

Our principal risks and uncertainties are set out on **pages 58 to 65** including details of each risk and how we manage and mitigate them. The directors carried out a robust assessment of the principal risks affecting the group, including any that could threaten our business model, future performance, insolvency or liquidity.

This assessment is consistent with the assessment of our viability, as set out on **page 70**, in estimating the financial impact for a severe but plausible outcome for each risk, both individually and in combination through stochastic risk modelling. This stress testing confirmed that existing projected cash flows and cash management activities provide us with adequate headroom over the going concern assessment period.

Having assessed the principal and emerging risks, the directors considered it appropriate to adopt the going concern basis of accounting when preparing the financial statements. This assessment covers the period to May 2023, which is consistent with the FRC guidance. When reaching this conclusion, the directors took into account the group's overall financial position (including trading results and ability to repay term debt as it matures without recourse to refinancing) and the exposure to principal risks (including severe but plausible downsides, refer to the **Viability statement** on **page 70**).

At 31 March 2022, the group had cash and cash equivalents of £0.8bn and current asset investments of £2.7bn. The group also had access to committed borrowing facilities of £2.1bn. These facilities were undrawn at the period-end and are not subject to renewal until March 2027.

Independent advice

The Board has a procedure that allows directors to seek independent professional advice at our expense. All directors also have access to the advice and services of the company secretary and her nominated delegate.

Directors' and officers' liability insurance and indemnity

For some years, we have bought insurance cover for directors, officers and employees in positions of managerial supervision of BT Group plc and its subsidiaries. This is intended to protect against defence costs, civil damages and, in some circumstances, civil fines and penalties following an action brought against them in their personal capacity. The policy also covers individuals serving as directors of other companies or of joint ventures, or on boards of trade associations or charitable organisations at the group's request. The insurance protects the directors and officers directly in circumstances where, by law, BT Group plc cannot provide an indemnity. It also provides the group, subject to a retention, with cover against the cost of indemnifying a director or officer. One layer of insurance is ringfenced for the directors of BT Group plc.

As at 11 May 2022, and throughout FY22, BT Group plc's wholly-owned subsidiary, British Telecommunications plc, has provided an indemnity for a group of people similar to the group covered by the above insurance. Neither the insurance nor the indemnity provides cover where the individual is proven to have acted fraudulently or dishonestly.

As permitted by BT Group plc's Articles of Association, and to the extent permitted by law, the group indemnifies each of its directors and other officers against certain liabilities that may be incurred as a result of their positions within the group. The indemnity was in force throughout the tenure of each director during the last financial year, and remains in force.

Interest of management in certain transactions

During and at the end of FY22, none of BT Group plc's directors were materially interested in any material transaction in relation to the group's business. None are materially interested in any currently proposed material transactions.

Report of the directors continued

Power to authorise conflicts

All directors have a duty under the 2006 Act to avoid a situation in which he or she has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the group. BT Group plc's Articles of Association include provisions for dealing with directors' conflicts of interest in accordance with the 2006 Act. The group has procedures in place, which it follows, to deal with such situations. These require the Board to:

- consider each conflict situation separately on its particular facts
- consider the conflict situation in conjunction with its other duties under the 2006 Act
- keep records and Board minutes on any authorisations granted by directors and the scope of any approvals given
- regularly review conflict authorisation.

The company secretary maintains a conflicts of interest register.

The *Conflicted Matters Committee* identifies to what extent Board and committee materials are likely to refer to a potential or actual conflict of interest between BT Group plc and Deutsche Telekom and, as a result, what materials should be shared with our non-independent, non-executive director and Deutsche Telekom nominated representative. He owes duties to both BT Group plc and Deutsche Telekom, and the *Conflicted Matters Committee* helps him comply with his fiduciary duties, although ultimate responsibility rests with him.

Systems of risk management and internal control

The Board is responsible for reviewing the group's systems of risk management and internal control each year, and for ensuring their effectiveness, including in respect of relevant assurance activities. These systems are designed to manage, rather than eliminate, risks we face that may prevent us from achieving our business objectives and delivering our strategy. Any system can provide only reasonable, and not absolute, assurance against material misstatement or loss.

Our group risk management framework is simple and consistent, and defines our (1) risk mindset and culture, (2) risk process and activities; and finally (3) governance. The framework:

- provides the business with the tools to take on the right risks and make smart risk decisions
- supports the identification, assessment and management of the principal risks and uncertainties faced by the group
- is an integral part of BT Group's annual strategic review cycle.

The framework was designed in accordance with the FRC guidance on risk management, internal control and related financial and business reporting and has been in operation throughout the year and up to the date on which this document was approved. The framework was reviewed in FY22 and deemed effective, with continuous enhancements around supporting smarter decision-making, expansion of emerging risk hubs and further embedding of the framework.

More information on our group risk management framework can be found under the section **Risk Management – Building Trust across BT Group** on **pages 55 to 57**.

Internal audit carry out periodic assessments of the quality of risk management and control, promote effective risk management across all our units and report to management and the *Audit & Risk Committee* on the status of specific areas identified for improvement. We do not cover joint ventures and associates not controlled by the group in the scope of our group risk management framework. Such third parties are responsible for their own internal control assessment.

Furthermore, the *Audit & Risk Committee*, on behalf of the Board, reviews the effectiveness of the systems of risk management and internal control across the group. Further details on how the *Audit & Risk Committee* fulfils these duties can be found on **pages 89 to 95**.

Capital management and funding policy

The objective of our capital management policy is to target an overall level of debt consistent with our credit rating objectives, while investing in the business, supporting our pension schemes and meeting our distribution policy.

The Board regularly reviews the group's capital structure. Management proposes actions which reflect the group's investment plans and risk characteristics, as well as the macroeconomic conditions in which we operate.

Our funding policy is to raise and invest funds centrally to meet the group's anticipated requirements. We use a combination of capital market bond issuance and committed borrowing facilities to fund the group. When issuing debt, in order to avoid refinancing risk, group treasury will take into consideration the maturity profile of the group's debt portfolio as well as forecast cash flows.

See note 28 to the consolidated **financial statements** for details of our treasury policy.

Financial instruments

Details of the group's financial risk management objectives, policies of the group and exposure to interest risk, credit risk, liquidity risk and foreign exchange are given in note 28 to the consolidated **financial statements**.

Credit risk management policy

We take proactive steps to minimise the impact of adverse market conditions on our financial instruments. In managing investments and derivative financial instruments, the group's central treasury function monitors the credit quality across treasury counterparties and actively manages any exposures that arise. Management within the business units also actively monitors any exposures arising from trading balances.

Off-balance sheet arrangements

Other than the financial commitments and contingent liabilities disclosed in note 31 to the consolidated **financial statements**, there are no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on:

- our financial condition
- changes in financial condition
- revenues or expenses
- results of operations
- liquidity
- capital expenditure
- capital resources.

Legal proceedings

The group is involved in various legal proceedings, including actual or threatened litigation and government or regulatory investigations. For further details of legal and regulatory proceedings to which the group is party to, please see note 19 to the consolidated **financial statements**.

Apart from the information disclosed in note 19 to the consolidated **financial statements**, the group does not currently believe that there are any legal proceedings, government or regulatory investigations that may have a material adverse impact on the operations or financial condition of the group. In respect of each of the claims described in note 19, the nature and progression of such proceedings and investigations can make it difficult to predict the impact they will have on the group. Many factors prevent us from making these assessments with certainty, including that the proceedings or investigations are in early stages, no damages or remedies have been specified, and/or the frequently slow pace of litigation.

Other information – Listing Rules

For the purposes of the Listing Rule (LR) 9.8.4R, the information below is disclosed as follows:

Section information	Page
LR 9.8.4R(4)	46
LR 9.8.4R(12)	See below
LR 9.8.4R(13)	See below

In respect of LR 9.8.4R(12) and (13), the trustee of the BT Group Employee Share Ownership Trust (the Trust) agrees to waive dividends payable on the BT Group plc shares it holds for satisfying awards under the group's executive share plans. Under the rules of these share plans, the dividends are reinvested in BT Group plc shares that are added to the relevant share awards.

No other information is required to be disclosed pursuant to LR 9.8.4R.

Other statutory information – the 2006 Act

Certain provisions of the 2006 Act (or regulations made pursuant thereto) require us to make additional disclosures within the **Report of the directors**. The disclosures referred to below are included elsewhere in this Annual Report and incorporated by reference into the **Report of the directors**:

Section information	Page
Future developments	1 to 70
Particulars of any important events affecting BT Group or any of its subsidiary undertakings which have occurred since the end of the financial year	198
Research and development activities	13 and 21
How the directors have engaged with UK employees, had regard to UK employee interests, and the effect of that regard, including on principal decisions during the year	36 and 80 to 81
How the directors have had regard to the need to foster business relationships with suppliers, customers and others, and the effect of that regard, including on principal decisions during the year	37 to 41 and 82 to 83
Greenhouse gas emissions, energy consumption and energy efficiency action	35 and 69
Structure of BT Group plc's share capital (including the rights and obligations attaching to the shares)	132
Significant agreements to which BT Group plc is a party that take effect, alter or terminate upon a change of control following a takeover	n/a
Branches	203 to 208

The following disclosures are not covered elsewhere in this Annual Report:

- BT Group has two employee share ownership trusts that hold BT Group plc shares for satisfying awards under our various employee share plans
- the trustee of the BT Group Employee Share Investment Plan may invite participants, on whose behalf it holds shares, to direct it how to vote in respect of those shares. If there is an offer for the shares or another transaction that would lead to a change of control, such participants may direct the trustee to accept the offer or agree to the transaction
- in respect of shares held in the Trust, the trustee abstains from voting those shares if there is an offer for the shares. The trustee does not have to accept or reject the offer but will have regard to the interests of the participants, may consult the participants to obtain their views on the offer, and may otherwise take any action with respect to the offer that it thinks is fair
- EasyShare is the group's corporate sponsored nominee service, which allows UK and European Economic Area resident shareholders to hold BT Group plc shares electronically. EasyShare is administered by Equiniti Financial Services Limited. As at 11 May 2022, 386m shares were held in EasyShare (3.87% of the issued share capital (3.89% excluding treasury shares)) on behalf of BT Group plc shareholders
- no person holds securities carrying special rights with regard to control of the group

Report of the directors continued

- our share registrar, Equiniti, must receive proxy appointment and voting instructions not less than 48 hours before any general meeting (see also [page 119](#))
- the business of BT Group is managed by the Board. The directors may exercise all the powers of BT Group plc, subject to the Articles of Association, legislation and regulation. This includes the ability to exercise the authority to allot or purchase BT Group plc shares pursuant to shareholders passing an ordinary resolution at the annual general meeting (AGM)
- we have no agreements with directors providing for compensation for loss of office or employment as a result of a takeover. Similarly, there is no provision for this in our standard employee contracts
- we are not aware of any agreements between shareholders that may result in restrictions on the transfer of shares or on voting rights.

Articles of Association

BT Group plc's current Articles of Association were adopted pursuant to a resolution passed at the AGM of BT Group plc held on 15 July 2021 and contain, amongst others, provisions on the rights and obligations attaching to BT Group plc's shares. The Articles of Association may only be amended by special resolution at a general meeting of the shareholders in accordance with applicable legislation.



A copy of the current Articles of Association is available at bt.com/articles

Directors' appointment, retirement and removal

The Articles of Association regulate the appointment and removal of directors, as does the 2006 Act and related legislation. The Board, and shareholders (by ordinary resolution), may appoint a person who is willing to be elected as a director, either to fill a vacancy or as an additional director. At every AGM, all directors must automatically retire. A retiring director is eligible for election or re-election, as applicable. In addition to any power of removal under the 2006 Act, the shareholders can pass an ordinary resolution to remove a director.

Adel Al-Saleh is appointed as a non-independent, non-executive director under the terms of the Relationship Agreement between BT Group plc and Deutsche Telekom. The appointment is terminable immediately by either party.

Share rights

(a) Voting rights

On a show of hands, every shareholder present in person or by proxy at any general meeting has one vote and, on a poll, every shareholder present in person or by proxy has one vote for each share which they hold.

There are no restrictions on exercising voting rights except in situations where BT Group plc is legally entitled to impose such a restriction (for example where a notice under section 793 of the 2006 Act has been served).

(b) Variation of rights

Whenever the share capital of BT Group plc is split into different classes of shares, the special rights attached to any of those classes can be varied or withdrawn either: (i) with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class; or (ii) with the consent in writing of the holders of at least 75% in nominal value of the issued shares of that class. BT Group plc can issue new shares and attach any rights and restrictions to them, as long as this is not restricted by special rights previously given to holders of any existing shares. Subject to this, the rights of new shares can take priority over the rights of existing shares, or existing shares can take priority over them, or the new shares and the existing shares can rank equally. BT Group plc currently has one class of shares.

Transfer of shares

There is no specific restriction on the transfer of BT Group plc shares in the group, which is governed by the Articles of Association and prevailing legislation.

Colleague engagement

Engaging with our colleagues takes many forms, including through:

- our annual Your Say employee engagement survey and pulse survey
- union/employee representative engagement
- the *Colleague Board*, our workforce engagement mechanism
- regular colleague communications.

Colleagues are kept well informed on matters such as the strategy and performance of the group, including after certain key events such as results and trading updates. Please see further details of the *Colleague Board's* activities on [pages 80 to 81](#) and the other means by which we engage with our colleagues on [page 36](#).

Share plans are used to encourage colleagues to have a stake in the future of the group. We annually consider which all-employee plans to offer, both within the UK and globally. In June 2021, we again operated the yourshare plan granting £500 worth of BT Group plc shares (or a cash equivalent where there were geographical restrictions) to all eligible colleagues. This utilised the free share element of the share incentive plan in the UK and conditional share awards internationally. Colleagues also have the opportunity to join our all-employee share plans; save as you earn (saveshare) and the share incentive plan (directshare), to the extent these are operated each year.

Employees with disabilities

We are an inclusive employer and actively encourage the recruitment, development, promotion and retention of disabled people.

We are a member of Valuable 500, a global business collective made up of 500 CEOs and their companies that are committed to disability inclusion. In 2021, we launched our Disability Rapid Action Plan (DRAP). This plan is our Valuable 500 commitment to accelerate the pace of progress we are making to support disabled and neurodiverse colleagues, and those that have an impairment, or a long-term health condition.

We renewed our status as a Disability Confident Leader and worked with several teams across the business, our Able2 People Network and external partner the Business Disability Forum, to focus on four key DRAP areas; attraction and recruitment, diversifying our talent by broadening our Accelerate fast stream talent programme, end-to-end reviews of our workplace adjustment processes, and training and awareness initiatives.

 Read more on diversity and inclusion, including our Diversity and Inclusion Report, at bt.com/diversity-and-inclusion

Political donations

Our policy is that no company in the group will make contributions in cash or in kind to any political party, whether by gift or loan. However, the definition of political donations used in the 2006 Act is significantly broader than the sense in which these words are ordinarily used. The 2006 Act's remit could cover making members of Parliament and others in the political world aware of key industry issues and matters affecting BT Group plc, and enhancing their understanding of the group.

The authority for political donations requested at the 2022 AGM is not intended to change this policy. It will, however, ensure that the group continues to act within the provisions of the 2006 Act, requiring companies to obtain shareholder authority before they make donations to political parties and/or political organisations as defined in the 2006 Act. During FY22, BT Group plc's wholly owned subsidiary, British Telecommunications plc, paid the costs of attending events at (i) the Labour party conference; (ii) the Conservative party conference; and (iii) the Welsh Labour party conference. These costs totalled £6,205 (FY21: £922) which were greater than last year, as events were attended in person rather than virtually. No company in the BT Group made any loans to any political party.

Substantial shareholdings

As at 31 March 2022, BT Group plc had received notice, under the DTRs, in respect of the following holdings of 3% or more of the voting rights in its issued ordinary share capital:

	Date of notification	Shares	% of total voting rights
Altice UK S.à r.l.	13 December 2021	1,785,476,188	18.0%
T-Mobile Holdings	23 March 2018	1,196,175,322	12.06%
BlackRock, Inc.	1 February 2022	611,646,054	6.15%

In the period 31 March to 11 May 2022, BT Group plc received three further notifications from BlackRock, Inc., the most recent of which was on 20 April 2022 disclosing a holding of 670,942,065 BT Group plc shares equating to 6.74% of the total voting rights.

AGM

Resolutions

At the 2022 AGM, shareholders will be asked to vote on all resolutions including the Annual Report, the **Report on directors' remuneration**, the election/re-election of directors, the reappointment of KPMG LLP as our external auditor and to authorise the *Audit & Risk Committee* to agree its remuneration, giving authority to the directors to allot BT Group plc shares and disapply pre-emption rights.

Before the AGM, we count the proxy votes for and against each resolution, as well as votes withheld, and make the results available as soon as reasonably practicable following the conclusion of the meeting. As at previous AGMs, we will take votes on all matters at the 2022 AGM on a poll.

The separate Notice of meeting 2022, which we send to all shareholders who have requested shareholder documents by post, contains the resolutions (with explanatory notes) which we will propose at the 2022 AGM on 14 July 2022. We notify all shareholders of the publication of these documents which are available on our website at bt.com/annualreport

Authority to purchase shares

The authority given at the 2021 AGM for BT Group plc to purchase in the market 991m of its shares, representing 10% of BT Group plc's issued share capital (excluding treasury shares), expires at the conclusion of the 2022 AGM. We will ask shareholders to give a similar authority at the 2022 AGM.

During FY22 and up to 11 May 2022, no shares were purchased under this authority.

At the start of the year, 50.7m shares (having a total nominal value of £2.5m, and constituting 0.5% of the issued share capital (0.5% excluding treasury shares)) were held as treasury shares. During FY22, 9.3m treasury shares (having a nominal value of £465,000, and constituting 0.09% of the issued share capital (0.09% excluding treasury shares)) were transferred to meet BT Group plc's obligations under its employee share plans. At 31 March 2022, a total of 41.4m shares (having a total nominal value of £2.1m, and constituting 0.41% of the issued share capital (0.41% excluding treasury shares)) were held as treasury shares.

Since 31 March 2022 (up to and including 11 May 2022), 784,038 treasury shares (having a nominal value of £39,200, and constituting 0.007% of the issued share capital (0.007% excluding treasury shares)) have been transferred to meet BT Group plc's obligations under its employee share plans.

At 11 May 2022, a total of 40.6m shares (having a nominal value of £2m, and constituting 0.4% of the issued share capital (0.4% excluding treasury shares)) were held as treasury shares.

In addition, the Trust purchased 98.8m BT Group plc shares for a total consideration of £182m. The Trust held 79.1m shares both at 31 March 2022 and 11 May 2022.

Report of the directors continued

Cross-reference to the Strategic report

We have chosen to include the following information in the **Strategic report** in line with the 2006 Act (otherwise required by law to be included in the **Report of the directors**):

- the final dividend proposed by the Board ([page 47](#))
- an indication of likely future developments in the business of BT Group plc and its group ([pages 1 to 70](#))
- an indication of our research and development activities ([pages 13 and 21](#))
- information about how the directors engaged with UK employees, had regard to UK employee interests, and the effect of that regard, including on principal decisions during the year ([pages 36 and 80 to 81](#))
- information about how the directors have had regard to the need to foster business relationships with suppliers, customers and others, and the effect of that regard, including on principal decisions during the year ([pages 37 to 41 and 82 to 83](#))
- information about greenhouse gas emissions, energy consumption and energy efficiency action ([pages 35 and 69](#)).

By order of the Board

Sabine Chalmers

Group General Counsel, Company Secretary & Director
Regulatory Affairs
11 May 2022

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Look out for these throughout the financial statements:

-  Significant accounting policies
-  Critical & key accounting estimates and significant judgements

Independent auditor's report to the members of BT Group plc

1. Our opinion is unmodified

We have audited the financial statements of BT Group plc ("the Company") for the year ended 31 March 2022 which comprise the Group income statement, Group statement of comprehensive income, Group balance sheet, Group statement of changes in equity, Group cash flow statement, company balance sheet, company statement of changes in equity, and the related notes, including the accounting policies.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 March 2022 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK- adopted international accounting standards;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the shareholders on 11 July 2018. The period of total uninterrupted engagement is for the four financial years ended 31 March 2022. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters (unchanged from 2021), in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Valuation of certain unquoted investments in the BT Pension Scheme (BTPS)

Certain unquoted investments in the BTPS: included within unquoted BTPS plan assets of £18.6 billion (2021: £17.9 billion)

Risk vs 2021: decrease

Refer to [page 89](#) Audit & Risk Committee Report), [page 168](#) (note 20 accounting policy Retirement benefit plans) and [pages 167 to 179](#) (disclosures note 20 Retirement benefit plans).

The risk

Subjective valuation:

The BTPS has unquoted plan assets in private equity, UK and overseas property, mature infrastructure, longevity insurance contracts, secure income and non-core credit assets. Significant judgement is required to determine the value of a portion of these unquoted investments, which are valued based on inputs that are not directly observable. Furthermore, the geo-political events in 2022, which directly affect market conditions, have resulted in some risk of volatility in asset valuation. Notwithstanding this, the overall risk has decreased in the current year compared to the prior period.

The key unobservable inputs used to determine the fair value of these plan assets includes estimated rental value for the UK and overseas property, discount rates and comparable transactions for mature infrastructure and certain secure income assets, discount rate and projected future mortality for the longevity insurance contract and estimated net asset values for private equity, non-core credit assets and certain secure income assets.

The effect of these matters is that, as part of our risk assessment, we determined that the valuation of unquoted plan assets in the BTPS has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.

The financial statements (note 20) disclose as part of sensitivities of growth assets the key sensitivities of key assumptions for the valuation of unquoted plan assets.

Our response – our procedures included:

Assessing valuers' credentials: Evaluating the scope, competencies and objectivity of the Group's external experts who assisted in determining the key unobservable inputs and market indices listed above.

Assessing transparency: Considering the adequacy of the Group's disclosures in respect of the sensitivity of the asset valuations to these assumptions.

Longevity insurance contract

Comparing valuations: Challenging, with the support of our own actuarial specialists, the fair value of the longevity insurance contract by comparing it to an independently developed range of fair values using assumptions, such as the discount rate and projected future mortality, based on external data.

Property/infrastructure and certain secure income assets

Benchmarking assumptions: Challenging, with the support of our own valuation specialists, the key unobservable inputs, such as estimated rental value and market value, used in determining the fair value of a sample of UK and overseas property assets, and discount rates used in determining the mature infrastructure and certain secure income assets by comparing them to discount rates for comparable external assets.

Comparing valuations: Developing, with the support of our own valuation specialists, an independent expectation of the fair value for a sample of UK and overseas property based on changes in valuation for the relevant geography and asset type obtained from external market data and the historical valuation for each property.

Private equity, non-core credit assets and certain secure income assets

External confirmations: Comparing the estimated net asset values for private equity, non-core credit and certain secure income assets to confirmations obtained directly from third parties.

Test of details: Comparing the Group's fund managers' historical estimated net asset values to the latest audited financial statements of those funds to assess the Group's ability to accurately estimate the fair value of private equity and non-core credit assets.

We performed the tests above rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.

Our results

We consider the valuation of the BTPS unquoted plan assets to be acceptable (2021: acceptable).

Valuation of defined benefit obligation of the BT Pension Scheme (BTPS)

BTPS obligation: £54.3 billion (2021: £57.7 billion)

Risk vs 2021: increase

Refer to [page 89](#) (Audit & Risk Committee Report), [page 168](#) (note 20 accounting policy Retirement benefits) and [pages 167 to 179](#) (disclosures note 20 Retirement benefit plans).

The risk

Subjective estimate:

The valuation of the BTPS defined benefit obligation is complex and requires significant judgements and assumptions. A change in the methodology applied or small changes in the key actuarial assumptions over the life expectancy of members, price inflation, and discount rates can significantly impact the valuation of the BTPS defined benefit obligation in the financial statements.

The impacts of the Covid pandemic and the recent geo-political events have resulted in an increased level of uncertainty across various indices, thus impacting the assumptions and methodologies used in forecasting the inflation and life expectancy of members for future years.

The effect of these matters is that, as part of our risk assessment, we determined that the valuation of the BTPS defined benefit obligation has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 20) disclose the sensitivity of key assumptions for the obligation estimated by the Group.

Our response – our procedures included:

Benchmarking assumptions: Challenging, with the support of our own actuarial specialists, the life expectancy of the members, price inflation and discount rates used to determine the defined benefit obligation against independently developed assumptions using external market data.

Assessing actuaries' credentials: Evaluating the scope, competency and objectivity of the Group's external experts who assisted in determining the actuarial assumptions used to determine the defined benefit obligation.

Assessing transparency: Considering the adequacy of the Group's disclosures in respect of the sensitivity of the obligation to these assumptions.

We performed the tests above rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.

Our results

We found the resulting estimate of the BTPS defined benefit obligation to be acceptable (2021: acceptable).

Accuracy of revenue due to the complexity of the billing systems

Certain revenue streams: included within total revenue of £20.9 billion (2021: £21.3 billion)

Risk vs 2021: same

Refer to [pages 140 to 143](#) (financial disclosures note 5 Revenue).

The risk

Processing error

BT non-long-term contract revenue consists of a large number of low value transactions. The Group operates a number of distinct billing systems and the IT landscape underpinning revenue and linking the billing systems together is complex.

There are multiple products sold at multiple rates with varying price structures in place. Products represent a combination of service based products, such as fixed line telephony, as well as goods, such as the provision of mobile handsets. There are monthly tariff charges.

The revenue recognition of non-long-term contract revenue is not subject to significant judgement. However, due to the large number of transactions and complexity of the billing systems, this is considered to be an area of most significance in our audit.

Our response

Our procedures included:

Process understanding: Obtaining an understanding of the revenue processes by observing transactions from customer initiation to cash received for certain material revenue streams.

Test of details: Comparing a sample of revenue transactions, including credit notes, to supporting evidence e.g. customer bills, orders, price lists, contractual terms, proof of service and cash received (all where applicable).

We performed the detailed tests above rather than seeking to rely on the Group's controls because our knowledge of the design of these controls indicated that we would be unlikely to obtain the required evidence to support reliance on controls.

Independent auditor's report to the members of BT Group plc continued

Our results

We considered revenue relating to non-long-term contract revenue to be acceptable (2021: acceptable).

Recoverability of parent company investment in subsidiaries and loans to group undertakings

Investment in subsidiary £11,201 million (2021: £11,096 million)

Refer to **page 201** (accounting policy Investments) and **page 201** (financial disclosures note 2 Investments).

Loans to group undertakings £nil million (2021: £972 million)

Refer to **page 201** (accounting policy Impairment of financial assets).

The risk

Low risk, high value

The carrying amount of the parent company investment in subsidiary and the amount of loans to Group undertakings represent 93% and 7% respectively (2021: 92% and 8% respectively), of the company's total assets.

Their recoverability is not considered a significant risk or subject to significant judgement. However, due to their materiality in the context of the parent company financial statements, these are considered to be the areas that had the greatest effect on our overall parent company audit.

Our response

Our procedures included:

Test of details: Comparing the carrying amount of the parent company's investment and loans to Group undertakings, with the relevant subsidiary balance sheet to identify whether its net assets, being an approximation of their minimum recoverable amount, was in excess of its carrying amount and assessing whether that subsidiary group has historically been profit-making.

Comparing valuations: Comparing the carrying amount of the parent company's investment and loans to Group undertakings, with the market capitalisation of the Group.

We performed the tests above rather than seeking to rely on any of the Company's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.

Our results

We found the carrying amounts of the investment in subsidiary and debt due from Group entities to be acceptable (2021: acceptable).

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £100 million (2021: £105 million), determined with reference to a benchmark of Group profit before tax from continuing operations normalised by averaging over the last 5 years due to fluctuations as a result of Covid-19, of £2,265 million (2021: benchmark of group profit before tax from continuing operations of £2,359 million), of which it represents 4.4% (2021: 4.5%).

Materiality for the parent company financial statements as a whole was set at £95 million (2021: £95 million), determined with reference to a benchmark of total assets, of which it represents 0.8% (2021: 0.8%), and chosen to be lower than materiality for the Group financial statements as a whole.

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 65% (2021: 65%) of materiality for the financial statements as a whole, which equates to £65 million (2021: £68 million) for the Group and £61.75 million (2021: £61.75 million) for the parent company. We applied this percentage in our determination of performance materiality based on the level of identified control deficiencies during the prior years.

We agreed to report the Audit Committee any corrected or uncorrected identified misstatements exceeding £5 million (2021: £5.25 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Consistent with prior year, we define components of the Group based on legal entity and have determined our audit scope predominately on the same basis. Of the Group's 234 (2021: 233) reporting components, we subjected 5 (2021: 4) to full scope audits for Group purposes. Work on the Group's entire property, plant and equipment balance was performed by the Group audit team on behalf of the Group and component teams.

The components within the scope of our work accounted for the following percentages:

	Group revenue	Group profit before tax	Group total assets
Audits for group reporting purposes	90%	83%	97%
2021	87%	78%	95%

The remaining 10% (2021: 13%) of total Group revenue, 17% (2021: 22%) of Group profit before tax and 3% (2021: 5%) of total Group assets is represented by 229 (2021: 229) reporting components, none of which individually represented more than 6% (2021: 6%) of any of total Group revenue, Group profit before tax or total Group assets. For the residual components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The work on all components, excluding the audit of BT Italy, was performed by the Group audit team. The parent company was also audited by the Group audit team. The Group team instructed the BT Italy component auditor as to the significant areas to be covered, including the risks identified above and the information to be reported back.

The Group team approved the component materialities, which ranged from £20 million to £85 million (2021: £25 million to £90 million), having regard to the mix and size and risk profile of the Group across components.

The Group audit team met frequently on video conference meetings with the BT Italy component audit team as part of the audit planning and completion stages to explain our audit instructions and discuss the component auditor's plans as well as performing file reviews upon the completion of the component auditor's engagement.

At these meetings with component auditors, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

The scope of the audit work performed was predominately substantive as we placed limited reliance upon the Group's internal control over financial reporting.

4. The impact of climate change on our audit

In planning our audit, we considered the potential impacts of climate change on the Group's business and its financial statements.

The Group has pledged in the Strategic reports to be a net-zero business by 2030 and has also outlined several shorter-term climate change targets. Furthermore, the Group has mentioned its commitment to implementing the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Further information has been provided in the Group's Strategic Report on [page 66](#).

As a part of our audit, we have performed a risk assessment, including enquiries of management, to understand how the impact of commitments made by the Group in respect of climate change, as well as the physical and transition risks of climate change, may affect the financial statements and our audit.

The potential impacts of these matters relate to the forward-looking estimates, which include projections for impairment assessment of goodwill, useful economic life of vehicle fleet and infrastructure impacting on future depreciation charges, and significant assumptions used in pension asset valuations. Taking into account our risk assessment procedures, the headroom on goodwill, the remaining useful economic lives of relevant assets and the nature of the assumptions used in the pension asset valuation, we have assessed that there is not a significant risk to the balances in the financial statements as a result of climate change. Therefore, there was no material impact on the Group's critical accounting estimates and our key audit matters.

We have read the disclosures of climate related information in the annual report and considered their consistency with the financial statements and our audit knowledge. We have not been engaged to provide assurance over the accuracy of the climate risk disclosures in the Annual Report.

5. Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were:

- The impact of prolonged stagflation driven by geo-political factors and Covid-19 persistence;
- The impact of an industrial action and international trade sanctions;
- The impact of a significant supply chain disruptions driven by the geo-political factors;
- The impact of an increased level of financial market volatility and deterioration of BT's covenant triggers on the funding obligation of BT Pension Scheme;

We also considered less predictable but realistic second order impacts, such as a large scale cyber breach or adverse changes to telecoms regulation which could result in a rapid reduction of available financial resources.

We considered whether these risks could plausibly affect the liquidity in the going concern period by comparing severe but plausible downside scenarios that could arise from these risks individually and collectively against the level of available financial resources indicated by the Group's financial forecasts.

We also assessed the completeness of the going concern disclosure.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period;
- we have nothing material to add or draw attention to in relation to the directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for the going concern period, and we found the going concern disclosure in note 1 to be acceptable; and
- the related statement under the Listing Rules set out on [page 115](#) is materially consistent with the financial statements and our audit knowledge.

Independent auditor's report to the members of BT Group plc continued

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Company will continue in operation.

6. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud (“fraud risks”) we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- enquiring of directors, the audit committee, internal audit and inspection of policy documentation as to the Group’s high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group’s channel for “whistleblowing”, as well as whether they have knowledge of any actual, suspected or alleged fraud;
- reading Board, Remuneration Committee and Executive Committee minutes;
- considering remuneration incentive schemes and performance targets for management and directors including the EPS target for management remuneration;
- using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the Group to full scope component audit teams of relevant fraud risks identified at the Group level and request to full scope component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at Group.

As required by auditing standards, and taking into account possible pressures to meet profit targets, recent revisions to guidance and our overall knowledge of the control environment, we performed procedures to address the risk of management override of controls, in particular the risk that Group and component management may be in a position to make inappropriate accounting entries.

On this audit we do not believe there is a fraud risk related to revenue recognition because non-long-term contract revenues are not judgemental and consist of a high number of low value transactions, and long-term contracts are generally low in complexity with most having a revenue recognition profile aligned to billing.

We did not identify any additional fraud risks.

We performed procedures including:

- identifying journal entries to test for all full scope components based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management, those posted and approved by the same user and those posted to unusual or seldom used accounts;
- assessing whether the judgements made in making accounting estimates are indicative of a potential bias;
- evaluating the business purpose for significant unusual transactions.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group’s regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the Group’s procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group to full-scope component audit teams of relevant laws and regulations identified at the Group level, and a request for full scope component auditors to report to the Group team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at Group.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation, and pension legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group’s licence to operate. We identified the following areas as those most likely to have such an effect: anti-bribery, regulations affecting telecommunication providers, and certain aspects of company legislation recognising the financial and regulated nature of the Group’s activities (including compliance with Ofcom regulation) and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

We discussed with the audit committee other matters related to actual or suspected breaches of laws or regulations, for which disclosure is not necessary, and considered any implications for our audit.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

7. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of emerging and principal risks and longer-term viability

We are required to perform procedures to identify whether there is a material inconsistency between the directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the Viability statement on **page 70** that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and how emerging risks are identified, and explaining how they are being managed and mitigated; and
- the directors' explanation in the Viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to review the Viability statement, set out on **page 70** under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the financial statements and our audit knowledge.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to perform procedures to identify whether there is a material inconsistency between the directors' corporate governance disclosures and the financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the financial statements and our audit knowledge:

- the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy;
- the section of the annual report describing the work of the Audit Committee, including the significant issues that the audit committee considered in relation to the financial statements, and how these issues were addressed; and
- the section of the annual report that describes the review of the effectiveness of the Group's risk management and internal control systems.

Independent auditor's report to the members of BT Group plc continued

We are required to review the part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review. We have nothing to report in this respect.

8. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

9. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on [page 114](#), the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

10. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and the terms of our engagement by the Company. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and the further matters we are required to state to them in accordance with the terms agreed with the Company, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

John Luke

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
12 May 2022

Group income statement

Year ended 31 March 2022

	Notes	Before specific items ('Adjusted') £m	Specific items ^a £m	Total (Reported) £m
Revenue	4, 5	20,845	5	20,850
Operating costs	6	(17,673)	(292)	(17,965)
Operating profit (loss)	4	3,172	(287)	2,885
Finance expense	27	(833)	(101)	(934)
Finance income		12	–	12
Net finance expense		(821)	(101)	(922)
Share of post tax profit (loss) of associates and joint ventures		–	–	–
Profit (loss) before taxation		2,351	(388)	1,963
Taxation	10	(349)	(340)	(689)
Profit (loss) for the year		2,002	(728)	1,274
Earnings per share	11			
Basic		20.3p	(7.4)p	12.9p
Diluted		19.7p	(7.2)p	12.5p

Group income statement

Year ended 31 March 2021

	Notes	Before specific items ('Adjusted') £m	Specific items ^a £m	Total (Reported) £m
Revenue	4, 5	21,370	(39)	21,331
Operating costs	6	(18,302)	(442)	(18,744)
Operating profit (loss)	4	3,068	(481)	2,587
Finance expense	27	(785)	(18)	(803)
Finance income		12	–	12
Net finance expense		(773)	(18)	(791)
Share of post tax profit (loss) of associates and joint ventures		8	–	8
Profit (loss) before taxation		2,303	(499)	1,804
Taxation	10	(428)	96	(332)
Profit (loss) for the year		1,875	(403)	1,472
Earnings per share	11			
Basic		18.9p	(4.1)p	14.8p
Diluted		18.6p	(4.0)p	14.6p

a For a definition of specific items, see [page 209](#). An analysis of specific items is provided in note 9.

Group statement of comprehensive income

Year ended 31 March

	Notes	2022 £m	2021 £m
Profit for the year		1,274	1,472
Other comprehensive income (loss)			
Items that will not be reclassified to the income statement			
Remeasurements of the net pension obligation	20	2,865	(4,856)
Tax on pension remeasurements	10	(399)	918
Items that have been or may be reclassified to the income statement			
Exchange differences on translation of foreign operations	29	65	(189)
Fair value movements on assets at fair value through other comprehensive income	29	6	–
Movements in relation to cash flow hedges:			
– net fair value gains (losses)	29	204	(1,468)
– recognised in income and expense	29	(54)	850
Tax on components of other comprehensive income that have been or may be reclassified	10, 29	(31)	133
Other comprehensive income (loss) for the year, net of tax		2,656	(4,612)
Total comprehensive income (loss) for the year		3,930	(3,140)

Group balance sheet

At 31 March

	Notes	2022 £m	2021 £m
Non-current assets			
Intangible assets	13	13,809	13,357
Property, plant and equipment	14	20,599	19,397
Right-of-use assets	15	4,429	4,863
Derivative financial instruments	28	1,003	1,165
Investments	24	34	31
Associates and joint ventures		5	17
Trade and other receivables	17	337	314
Contract assets	5	361	344
Deferred tax assets	10	289	989
		40,866	40,477
Current assets			
Programme rights	16	310	328
Inventories		300	297
Trade and other receivables	17	2,624	3,257
Contract assets	5	1,554	1,515
Assets classified as held for sale	23	80	–
Current tax receivable		496	281
Derivative financial instruments	28	88	70
Investments	24	2,679	3,652
Cash and cash equivalents	25	777	1,000
		8,908	10,400
Current liabilities			
Loans and other borrowings	26	873	911
Derivative financial instruments	28	51	88
Trade and other payables	18	6,142	5,980
Contract liabilities	5	833	925
Lease liabilities	15	795	730
Liabilities classified as held for sale	23	40	–
Current tax liabilities		90	84
Provisions	19	222	288
		9,046	9,006
Total assets less current liabilities		40,728	41,871
Non-current liabilities			
Loans and other borrowings	26	15,312	15,774
Derivative financial instruments	28	819	1,195
Contract liabilities	5	170	167
Lease liabilities	15	4,965	5,422
Retirement benefit obligations	20	1,143	5,096
Other payables	18	624	682
Deferred tax liabilities	10	1,960	1,429
Provisions	19	439	427
		25,432	30,192
Equity			
Share capital		499	499
Share premium		1,051	1,051
Own shares	21	(274)	(143)
Merger reserve		998	998
Other reserves	29	619	436
Retained earnings		12,403	8,838
Total equity		15,296	11,679
		40,728	41,871

The consolidated financial statements on **pages 129 to 208** were approved by the Board of Directors on 11 May 2022 and were signed on its behalf by:

Adam Crozier
Chairman

Philip Jansen
Chief Executive

Simon Lowth
Chief Financial Officer

Group statement of changes in equity

	Notes	Share capital ^a £m	Share premium ^b £m	Own shares ^c £m	Merger reserve ^d £m	Other reserves ^e £m	Retained (loss) earnings £m	Total equity (deficit) £m
At 1 April 2020		499	1,051	(237)	2,572	1,119	9,759	14,763
Profit for the year		–	–	–	–	–	1,472	1,472
Other comprehensive income (loss) – before tax		–	–	–	–	(1,657)	(4,856)	(6,513)
Tax on other comprehensive income (loss)	10	–	–	–	–	133	918	1,051
Transferred to the income statement		–	–	–	–	850	–	850
Total comprehensive income (loss) for the year		–	–	–	–	(674)	(2,466)	(3,140)
Dividends to shareholders	12	–	–	–	–	–	–	–
Unclaimed dividend over 10 years		–	–	–	–	–	–	–
Share-based payments	22	–	–	–	–	–	72	72
Tax on share-based payments	10	–	–	–	–	–	5	5
Net buyback of own shares	21	–	–	94	–	–	(107)	(13)
Transfer to realised profit		–	–	–	(1,574)	(9)	1,583	–
Other movements		–	–	–	–	–	(8)	(8)
At 31 March 2021		499	1,051	(143)	998	436	8,838	11,679
Profit for the year		–	–	–	–	–	1,274	1,274
Other comprehensive income (loss) – before tax		–	–	–	–	275	2,865	3,140
Tax on other comprehensive income (loss)	10	–	–	–	–	(31)	(399)	(430)
Transferred to the income statement		–	–	–	–	(54)	–	(54)
Total comprehensive income (loss) for the year		–	–	–	–	190	3,740	3,930
Dividends to shareholders	12	–	–	–	–	–	(227)	(227)
Unclaimed dividend over 10 years		–	–	–	–	–	2	2
Share-based payments	22	–	–	–	–	–	108	108
Tax on share-based payments	10	–	–	–	–	–	11	11
Net buyback of own shares	21	–	–	(131)	–	–	(65)	(196)
Transfer to realised profit		–	–	–	–	(7)	7	–
Other movements ^f		–	–	–	–	–	(11)	(11)
At 31 March 2022		499	1,051	(274)	998	619	12,403	15,296

a The allotted, called up, and fully paid ordinary share capital of BT Group plc at 31 March 2022 was £499m comprising 9,968,127,681 ordinary shares of 5p each (FY21: £499m comprising 9,968,127,681 ordinary shares of 5p each).

b The share premium account, comprising the premium on allotment of shares, is not available for distribution.

c For further analysis of own shares, see note 21.

d The merger reserve balance at 1 April 2020 includes £998m related to the group reorganisation that occurred in November 2001 and represented the difference between the nominal value of shares in the new parent company, BT Group plc, and the aggregate of the share capital, share premium account and capital redemption reserve of the prior parent company, British Telecommunications plc. In addition, on 29 January 2016, the company issued 1,594,900,429 ordinary shares of 5p at 470.7p per share. These shares were used as part consideration for the acquisition of EE. As a result of this transaction the merger reserve was credited with £7,424m net of £3m issue costs. In FY21, following settlement of intercompany loans by qualifying consideration of £1,574m, equivalent balances were transferred from merger reserve to realised profit.

e For further analysis of other reserves, see note 29.

f In June 2021, BT exercised an option to purchase the minority shareholding in a subsidiary (BT Communications South Africa). The obligation to purchase the subsidiary's equity instruments is accounted for as a financial liability with a corresponding debit to equity. Non-controlling interests are not material to the Group so are not accounted for separately.

Group cash flow statement

Year ended 31 March

	Notes	2022 £m	2021 £m
Cash flow from operating activities			
Profit before taxation		1,963	1,804
Share of post tax (profit) loss of associates and joint ventures		–	(8)
Net finance expense		922	791
Operating profit		2,885	2,587
Other non-cash charges		76	267
(Profit) loss on disposal of businesses		(37)	(65)
(Profit) loss on disposal of property, plant and equipment and intangible assets		–	(66)
Depreciation and amortisation		4,405	4,347
(Increase) decrease in inventories		(3)	2
(Increase) decrease in programme rights		(17)	13
(Increase) decrease in trade and other receivables		(53)	327
(Increase) decrease in contract assets		(51)	(141)
Increase (decrease) in trade and other payables		99	(43)
(Decrease) increase in contract liabilities		(93)	(48)
(Decrease) increase in other liabilities ^a		(1,169)	(927)
(Decrease) increase in provisions		(80)	(2)
Cash generated from operations		5,962	6,251
Income taxes paid		(52)	(288)
Net cash inflow from operating activities		5,910	5,963
Cash flow from investing activities			
Interest received		6	6
Dividends received from associates and joint ventures		1	5
Acquisition of subsidiaries		–	(7)
Proceeds on disposal of subsidiaries, associates and joint ventures		76	164
Proceeds on disposal of current financial assets ^b		13,402	13,506
Purchases of current financial assets ^b		(12,432)	(12,085)
Net (purchase) disposal of non-current asset investments		(8)	(11)
Proceeds on disposal of property, plant and equipment and intangible assets		2	85
Purchases of property, plant and equipment and intangible assets ^c		(4,607)	(4,903)
Net cash outflow from investing activities		(3,560)	(3,240)
Cash flow from financing activities			
Equity dividends paid		(228)	(2)
Interest paid		(755)	(770)
Repayment of borrowings ^d		(1,374)	(1,162)
Proceeds from bank loans and bonds		744	–
Payment of lease liabilities		(659)	(782)
Cash flows from collateral received		(29)	(490)
Changes in ownership interests in subsidiaries ^e		(86)	–
Proceeds from issue of own shares		13	1
Repurchase of ordinary share capital		(184)	(14)
Net cash outflow from financing activities		(2,558)	(3,219)
Net decrease in cash and cash equivalents		(208)	(496)
Opening cash and cash equivalents ^f		896	1,409
Net decrease in cash and cash equivalents		(208)	(496)
Effect of exchange rate changes		4	(17)
Closing cash and cash equivalents^f	25	692	896

a Includes pension deficit payments of £1,121m (FY21: £955m).

b Primarily consists of investment in and redemption of amounts held in liquidity funds.

c Consists of additions to property, plant and equipment, engineering stores and software of £4,807m (FY21: £4,197m) and movements in capital accruals of £23m (FY21: £4m) less net refund in respect of spectrum acquisition of £223m (FY21: £702m prepayment).

d Repayment of borrowings includes the impact of hedging.

e Relates to the acquisition of the remaining 30% of the share capital of BT OnePhone Limited. As part of the accounting for the acquisition, we revisited our original assessment of control under IFRS 10 and concluded that it should have been classified as a subsidiary instead of a joint venture. The current period accounting reflects this assessment.

f Net of bank overdrafts of £85m (FY21: £104m).

Notes to the consolidated financial statements

1. Basis of preparation

Preparation of the financial statements

The consolidated financial statements have been prepared in accordance with UK-adopted international accounting standards and with the requirements of the Companies Act 2006.

The consolidated financial statements are prepared on a going concern basis.

This assessment is consistent with the assessment of our viability, as set out on [page 70](#), in estimating the financial impact of a severe but plausible outcome for each risk, both individually, in combination and through probabilistic risk modelling. This stress testing confirmed that existing projected cash flows and cash management activities provide us with adequate headroom over the going concern assessment period.

Having assessed the principal and emerging risks, the directors considered it appropriate to adopt the going concern basis of accounting when preparing the group and parent company financial statements. This assessment covers the period to May 2023, which is consistent with the FRC guidance. When reaching this conclusion, the directors took into account the group's and parent company's overall financial position (including trading results and ability to repay term debt as it matures without recourse to refinancing) and the exposure to principal risks.

These financial statements consolidate BT Group plc, the parent company, and its subsidiaries (together the 'group', 'us', 'we' or 'our').

The consolidated financial statements are prepared on the historical cost basis, except for certain financial and equity instruments that have been measured at fair value. The consolidated financial statements are presented in sterling, the functional currency of BT Group plc.

These financial statements cover the financial year from 1 April 2021 to 31 March 2022 ('FY22'), with comparative figures for the financial year from 1 April 2020 to 31 March 2021 ('FY21').

New and amended accounting standards effective during the year

The following amended standards and interpretations were effective during the year, however, they have not had a significant impact on our consolidated financial statements.

- Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)
- Covid-19-Related Rent Concessions (Amendment to IFRS 16)

Software as a Service

We previously capitalised certain configuration and customisation costs associated with software as a service arrangements as intangible assets. In its April 2021 agenda decision, the IFRS Interpretations Committee (IFRIC) clarified that such costs should be expensed where the entity does not control the software being configured. We have adopted the treatment set out by the IFRIC in its agenda decision. The impact of this on the group was not material.

Interest Rate Benchmark Reform

The replacement of Interbank Offered Rates (IBORs) with Alternative Reference Rates (ARRs) began from December 2021. Where floating interest bearing receivables and payables exist, and where IBOR was previously applicable, the Group began applying suitable replacement benchmark rates and now account for the instruments in accordance with the amendments to IFRS 9 Financial Instruments published in 2019 (Phase 1) and 2020 (Phase 2). The adoption of these amendments and the transition to ARR rates will not have a material financial impact. The implications on the trading results of our segments from the IBOR reform have also been assessed and the expected impact is not material. The Group will move to the new benchmark rates in accordance with timelines as per the regulatory guidelines.

New and amended accounting standards that have been issued but are not yet effective

The following new or amended standards and interpretations are applicable in future periods:

Amendments to IAS 37 for onerous contracts

The amendments to IAS 37 specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. The amendments apply for annual reporting periods beginning on or after 1 January 2022 to contracts existing at the date when the amendments are first applied. For BT this will be from next financial year. At the date of initial application, the cumulative effect of applying the amendments will be recognised as an opening balance adjustment to retained earnings as at 1 April 2022. The comparatives will not be restated. The Group is in the process of finalising the impact of the standard. We do not expect the impact on adoption to be material.

IFRS 17 'Insurance Contracts'

We are in the process of assessing the impact of adopting this standard which is effective for BT from 1 April 2023.

Other

The following are not expected to have a significant impact on the consolidated financial statements:

- Disclosure of Accounting Policies (amendments to IAS 1 and IFRS practice statement 2)
- Definition of Accounting Estimate (amendments to IAS 8)
- Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (amendments to IAS 12 Income Taxes)
- Classification of liabilities as current or non-current (Amendments to IAS 1)

Presentation of specific items

Our income statement and segmental analysis separately identify trading results before specific items ('adjusted'). The directors believe that presentation of our results in this way is relevant to an understanding of our financial performance, as specific items are identified by virtue of their size, nature or incidence.

This presentation is consistent with the way that financial performance is measured by management and reported to the Board and the Executive Committee and assists in providing a meaningful analysis of our trading results. In determining whether an event or transaction is specific, management considers quantitative as well as qualitative factors such as the frequency or predictability of occurrence.

1. Basis of preparation continued

Specific items may not be comparable to similarly titled measures used by other companies. Examples of charges or credits which meet the above definition include acquisitions or disposals of businesses and investments, historical regulatory penalties or litigation claims, business restructuring programmes including our current group-wide modernisation programme, asset impairment charges, property rationalisation programmes including our Better Workplace programme, net interest on pensions and the settlement of multiple tax years. In the event that other items meet the criteria, which are applied consistently from year to year, they are also treated as specific items.

Specific items for the current and prior year are disclosed in note 9.

2. Critical & key accounting estimates and significant judgements

The preparation of financial statements in conformity with IFRS requires the use of accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying our accounting policies. We continually evaluate our estimates, assumptions and judgements based on available information and experience. As the use of estimates is inherent in financial reporting, actual results could differ from these estimates.

Our critical accounting estimates are those estimates that carry a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year. We also make other key estimates when preparing the financial statements, which, while not meeting the definition of a critical estimate, involve a higher degree of complexity and can reasonably be expected to be of relevance to a user of the financial statements. Management has discussed its critical and other key accounting estimates and associated disclosures with the Audit and Risk Committee.

Significant judgements are those made by management in applying our significant accounting policies that have a material impact on the amounts presented in the financial statements. We may exercise significant judgement in our critical and key accounting estimates.

Our critical and key accounting estimates and significant judgements are described in the following notes to the financial statements. They can be identified by the following symbol .

Note	Critical estimate	Key estimate	Significant judgement
10. Current and deferred income tax	✓		✓
13. Goodwill impairment		✓	✓
15. Reasonable certainty and determination of lease terms			✓
19. Contingent liabilities associated with litigation	✓		✓
19. Other provisions and contingent liabilities		✓	✓
20. Pension obligations	✓		✓

3. Significant accounting policies that apply to the overall financial statements

The significant accounting policies applied in the preparation of our consolidated financial statements are set out below. Other significant accounting policies applicable to a particular area are disclosed in the most relevant note. They can be identified by the following symbol .

We have applied all policies consistently to all the years presented, unless otherwise stated.

Basis of consolidation

The group financial statements consolidate the financial statements of BT Group plc and its subsidiaries, and include its share of the results of associates and joint ventures using the equity method of accounting. The group recognises its direct rights to (and its share of) jointly held assets, liabilities, revenues and expenses of joint operations under the appropriate headings in the consolidated financial statements.

All business combinations are accounted for using the acquisition method regardless of whether equity instruments or other assets are acquired. No material acquisitions were made in the year.

A subsidiary is an entity that is controlled by another entity, known as the parent or investor. An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Non-controlling interests in the net assets of consolidated subsidiaries, which consist of the amounts of those interests at the date of the original business combination and non-controlling share of changes in equity since the date of the combination, are not material to the group's financial statements.

The results of subsidiaries acquired or disposed of during the year are consolidated from and up to the date of change of control. Where necessary, accounting policies of subsidiaries have been aligned with the policies adopted by the group. All intra-group transactions including any gains or losses, balances, income or expenses are eliminated in full on consolidation.

When the group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. The profit or loss on disposal is recognised as a specific item.

Inventories

Network maintenance equipment and equipment to be sold to customers are stated at the lower of cost or net realisable value, taking into account expected revenue from the sale of packages comprising a mobile handset and a subscription. Cost corresponds to purchase or production cost determined by either the first in first out (FIFO) or average cost method.

Notes to the consolidated financial statements continued

3. Significant accounting policies that apply to the overall financial statements continued

Government grants

Government grants are recognised when there is reasonable assurance that the conditions associated with the grants have been complied with and the grants will be received.

Grants for the purchase or production of property, plant and equipment are deducted from the cost of the related assets and reduce future depreciation expense accordingly. Grants for the reimbursement of operating expenditure are deducted from the related category of costs in the income statement. Estimates and judgements applied in accounting for government grants received in respect of BDUK and other rural superfast broadband contracts are described in note 14.

Once a government grant is recognised, any related deferred income is treated in accordance with IAS 20 'Accounting for Government Grants and Disclosure of Government Assistance'.

Foreign currencies

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of transactions and the translation of monetary assets and liabilities denominated in foreign currencies at period end exchange rates are recognised in the income statement line which most appropriately reflects the nature of the item or transaction.

On consolidation, assets and liabilities of foreign undertakings are translated into sterling at year end exchange rates. The results of foreign undertakings are translated into sterling at the rates prevailing on the transaction dates (unless it is not a reasonable approximation of the cumulative effects, in which case income and expenses are translated at average rates of exchange for the year). Foreign exchange differences arising on the retranslation of foreign undertakings are recognised directly in a separate component of equity, the translation reserve.

In the event of the disposal of an undertaking with assets and liabilities denominated in a foreign currency, the cumulative translation difference associated with the undertaking in the translation reserve is charged or credited to the gain or loss on disposal recognised in the income statement.

Research and development

Research expenditure is recognised in the income statement in the period in which it is incurred. Development expenditure, including the cost of internally developed software, is recognised in the income statement in the period in which it is incurred unless it is probable that economic benefits will flow to the group from the asset being developed, the cost of the asset can be reliably measured and technical feasibility can be demonstrated, in which case it is capitalised as an intangible asset on the balance sheet.

Capitalisation ceases when the asset being developed is ready for use. Research and development costs include direct and indirect labour, materials and directly attributable overheads.

Termination benefits

Termination benefits (leaver costs) are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. We recognise termination benefits when they are demonstrably committed to the affected employees leaving the group.

4. Segment information

Significant accounting policies that apply to segment information

Operating and reportable segments

Our operating segments are reported based on financial information provided to the Executive Committee, which is the key management committee and represents the 'chief operating decision maker'.

Our organisational structure reflects the different customer groups to which we provide communications products and services via our customer-facing units (CFUs): Consumer, Enterprise, Global and Openreach. The CFUs are supported by technology units (TUs) comprising Digital and Networks; and corporate units (CUs) including procurement and property management.

The CFUs are our reportable segments and generate substantially all of our revenue. TUs and CUs are not reportable segments as they did not meet the quantitative thresholds as set out in IFRS 8 'Operating Segments' for any of the years presented.

We aggregate the remaining operations and include within the 'Other' category to reconcile to the consolidated results of the group. The 'Other' category includes unallocated TU costs and our CUs.

Allocation of certain items to segments

Provisions for the settlement of significant legal, commercial and regulatory disputes, which are negotiated at a group level, are initially recorded in the 'Other' segment. On resolution of the dispute, the full impact is recognised in the results of the relevant CFU and offset in the group results through the utilisation of the provision previously charged to the 'Other' segment. Settlements which are particularly significant or cover more than one financial year may fall within the definition of specific items as detailed in note 9.

The costs incurred by TUs and CUs are recharged to the CFUs to reflect the services it provides to them. Depreciation and amortisation incurred by TUs in relation to the networks and systems they manage and operate on behalf of the CFUs is allocated to the CFUs based on their respective utilisation. Capital expenditure incurred by TUs for specific projects undertaken on behalf of the CFUs is allocated based on the value of the directly attributable expenditure incurred. Where projects are not directly attributable to a particular CFU, capital expenditure is allocated between them based on the proportion of estimated future economic benefits.

Specific items are detailed in note 9 and are not allocated to the reportable segments as this reflects how they are reported to the Executive Committee. Finance expense and income are not allocated to the reportable segments, as the central treasury function manages this activity, together with the overall net debt position of the group.

Measuring segment performance

Performance of each reportable segment is measured based on adjusted EBITDA. EBITDA is defined as the group profit or loss before interest, taxation, depreciation and amortisation. Adjusted EBITDA is defined as EBITDA before specific items, net non-interest related finance expense, and share of profits or losses of associates and joint ventures. Adjusted EBITDA is considered to be a useful measure of the operating performance of the CFUs because it approximates the underlying operating cash flow by eliminating depreciation and amortisation and also provides a meaningful analysis of trading performance by excluding specific items, which are disclosed separately by virtue of their size, nature or incidence.

Revenue recognition

Our revenue recognition policy is set out in Note 5.

Internal revenue and costs

Most of our internal trading relates to Openreach and arises on rentals, and any associated connection or migration charges, of the UK access lines and other network products to the CFUs, including the use of BT Ireland's network. This occurs both directly, and also indirectly, through TUs which are included within the 'Other' segment. Enterprise internal revenue arises from Consumer for mobile Ethernet access and TUs for transmission planning services. Internal revenue arising in Consumer relates primarily to employee broadband and wi-fi services. Intra-group revenue generated from the sale of regulated products and services is based on market price. Intra-group revenue from the sale of other products and services is agreed between the relevant CFUs and therefore the profitability of CFUs may be impacted by transfer pricing levels.

Geographic segmentation

The UK is our country of domicile and we generate the majority of our revenue from external customers in the UK. The geographic analysis of revenue is based on the country of origin in which the customer is invoiced. The geographic analysis of non-current assets, which exclude derivative financial instruments, investments and deferred tax assets, is based on the location of the assets.

Notes to the consolidated financial statements continued

4. Segment information continued

Segment revenue and profit

Year ended 31 March 2022	Consumer £m	Enterprise £m	Global £m	Openreach £m	Other £m	Total £m
Segment revenue	9,858	5,157	3,362	5,441	27	23,845
Internal revenue	(83)	(105)	–	(2,812)	–	(3,000)
Revenue from external customers^a	9,775	5,052	3,362	2,629	27	20,845
Adjusted EBITDA^b	2,262	1,636	456	3,179	44	7,577
Depreciation and amortisation ^a	(1,421)	(724)	(355)	(1,876)	(29)	(4,405)
Operating profit (loss)^a	841	912	101	1,303	15	3,172
Specific items (note 9)						(287)
Operating profit						2,885
Net finance expense ^c						(922)
Share of post tax profit (loss) of associates and joint ventures						–
Profit before tax						1,963
Year ended 31 March 2021	Consumer £m	Enterprise £m	Global £m	Openreach £m	Other £m	Total £m
Segment revenue	9,885	5,449	3,731	5,244	23	24,332
Internal revenue	(97)	(109)	–	(2,756)	–	(2,962)
Revenue from external customers^a	9,788	5,340	3,731	2,488	23	21,370
Adjusted EBITDA^b	2,128	1,704	596	2,937	50	7,415
Depreciation and amortisation ^a	(1,281)	(740)	(405)	(1,707)	(214)	(4,347)
Operating profit (loss)^a	847	964	191	1,230	(164)	3,068
Specific items (note 9)						(481)
Operating profit						2,587
Net finance expense ^c						(791)
Share of post tax profit (loss) of associates and joint ventures						8
Profit before tax						1,804

a Before specific items.

b Adjusted EBITDA, defined as EBITDA before specific items, net non-interest related finance expense, and share of profits or losses of associates and joint ventures.

c Net finance expense includes specific item expense of £101m (FY21): £18m. See note 9.

Internal revenue and costs

Year ended 31 March 2022	Internal cost recorded by					Total £m
	Consumer £m	Enterprise £m	Global £m	Openreach £m	Other £m	
Internal revenue recorded by						
Consumer	–	47	18	–	18	83
Enterprise	19	–	26	–	60	105
Global	–	–	–	–	–	–
Openreach	1,649	937	212	–	14	2,812
Total	1,668	984	256	–	92	3,000
Year ended 31 March 2021	Internal cost recorded by					Total £m
	Consumer £m	Enterprise £m	Global £m	Openreach £m	Other £m	
Internal revenue recorded by						
Consumer	–	60	19	–	18	97
Enterprise	17	–	29	–	63	109
Global	–	–	–	–	–	–
Openreach	1,592	919	231	–	14	2,756
Total	1,609	979	279	–	95	2,962

4. Segment information continued

Capital expenditure

Year ended 31 March 2022	Consumer £m	Enterprise £m	Global £m	Openreach £m	Other £m	Total £m
Intangible assets ^a	444	249	82	99	70	944
Property, plant and equipment ^b	754	320	119	2,449	221	3,863
Capital expenditure excluding spectrum	1,198	569	201	2,548	291	4,807
Purchase of spectrum ^a	388	91	–	–	–	479
Capital expenditure	1,586	660	201	2,548	291	5,286
Year ended 31 March 2021	Consumer £m	Enterprise £m	Global £m	Openreach £m	Other £m	Total £m
Intangible assets ^a	311	192	95	101	84	783
Property, plant and equipment ^b	771	300	93	2,148	121	3,433
Capital expenditure	1,082	492	188	2,249	205	4,216

a Additions to intangible assets as presented in note 13.

b Additions to property, plant and equipment as presented in note 14, inclusive of movement on engineering stores.

Geographic segmentation

Revenue from external customers

Year ended 31 March	2022 £m	2021 £m
UK	18,470	18,524
Europe, Middle East and Africa, excluding the UK	1,315	1,599
Americas	620	739
Asia Pacific	440	508
Revenue^a	20,845	21,370

a Before specific items.

Non-current assets

Year ended 31 March	2022 £m	2021 (Restated) ^a £m
UK	38,378	36,996
Europe, Middle East and Africa, excluding the UK	741	858
Americas	269	277
Asia Pacific	152	161
Non-current assets^b	39,540	38,292

a Prior year comparatives have been restated to reclassify a £1.3bn impairment of goodwill to more accurately reflect the region of the entity that the charge relates to. As a result the carrying amount of assets recorded in the UK region in the 2021 comparative has increased by £1.3bn, with an equal and opposite decrease in the Europe, Middle East and Africa region. This adjustment relates to the regional segmentation only and there is no impact on the initial measurement of the impairment charge or on amounts historically disclosed in note 13 Intangible Assets in respect of goodwill.

b Comprising the following balances presented in the group balance sheet: intangible assets; property, plant and equipment; right-of-use assets; associates and joint ventures; trade and other receivables and contract assets.

Notes to the consolidated financial statements continued

5. Revenue

Significant accounting policies that apply to revenue

Revenue from contracts with customers in scope of IFRS 15

Most revenue recognised by the group (excluding Openreach where most revenue is recognised under the scope of IFRS 16) is in scope of IFRS 15 and is subject to the following revenue recognition policy.

On inception of the contract we identify a “performance obligation” for each of the distinct goods or services we have promised to provide to the customer. The consideration specified in the contract with the customer is allocated to each performance obligation identified based on their relative standalone selling prices, and is recognised as revenue as they are satisfied.

The table below summarises the performance obligations we have identified for our major service lines and provides information on the timing of when they are satisfied and the related revenue recognition policy. Also detailed in this note is revenue expected to be recognised in future periods for contracts in place at 31 March 2022 that contain unsatisfied performance obligations.

Service line	Performance obligations	Revenue recognition policy
Information and communications technology (ICT) and managed networks	Provision of networked IT services, managed network services, and arrangements to design and build software solutions. Performance obligations are identified for each distinct service or deliverable for which the customer has contracted, and are considered to be satisfied over the time period that we deliver these services or deliverables. Commitments to provide hardware to customers that are distinct from the other promises are considered to be satisfied at the point in time that control passes to the customer.	Revenue for services is recognised over time using a measure of progress that appropriately reflects the pattern by which the performance obligation is satisfied. For time and materials contracts, revenue is recognised as the service is received by the customer. Where performance obligations exist for the provision of hardware, revenue is recognised at the point in time that the customer obtains control of the promised asset. For long-term fixed price contracts revenue recognition will typically be based on the satisfaction of performance obligations in respect of the achievement of contract milestones and customer acceptance, which is the best measure of progress towards the completion of the performance obligation.
Fixed access subscriptions	Provision of broadband, TV and fixed telephony services including national and international calls, connections, line rental, and calling features. Performance obligations exist for each ongoing service provided to the customer and are satisfied over the period that the services are provided. Installation services are recognised as distinct performance obligations if their relationship with the other services in the contract is purely functional. These are satisfied when the customer benefits from the service. Connection services are not distinct performance obligations and are therefore combined with the associated service performance obligation.	Fixed subscription charges are recognised as revenue on a straight line basis over the period that the services are provided. Upfront charges for non-distinct connection and installation services are deferred as contract liabilities and are recognised as revenue over the same period. Variable charges such as call charges are recognised when the related services are delivered. Where installation activities are distinct performance obligations, revenue is recognised at the point in time that the installation is completed.
Mobile subscriptions	Provision of mobile postpaid and prepaid services, including voice minutes, SMS, and data services. Performance obligations exist for each ongoing service provided to the customer and are satisfied over the period that the services are provided.	Subscription fees, consisting primarily of monthly charges for access to internet or voice and data services, are recognised as the service is provided. One-off services such as calls outside of plan and excess data usage are recognised when the service is used.
Equipment and other services	Provision of equipment and other services, including mobile phone handsets and hardware such as set top boxes and broadband routers provided as part of customer contracts. Performance obligations are satisfied at the point in time that control passes to the customer. For other services, performance obligations are identified based on the distinct goods and services we have committed to provide.	Revenue from equipment sales is recognised at the point in time that control passes to the customer. Where payment is not received in full at the time of the sale, such as with equipment provided as part of mobile and fixed access subscriptions, contract assets are recognised for the amount due from the customer that will be recovered over the contract period. Revenue to be recognised is calculated by reference to the relative standalone selling price of the equipment. For other services, revenue is recognised when the related performance obligations are satisfied, which could be over time, in line with contract milestones, or at a point in time depending on the nature of the service.

5. Revenue continued

We recognise revenue based on the relative standalone selling price of each performance obligation. Determining the standalone selling price often requires judgement and may be derived from regulated prices, list prices, a cost-plus derived price, or the price of similar products when sold on a standalone basis by BT or a competitor. In some cases it may be appropriate to use the contract price when this represents a bespoke price that would be the same for a similar customer in a similar circumstance.

The fixed access and mobile subscription arrangements sold by our Consumer business are typically payable in advance, with any variable or one-off charges billed in arrears. Payment is received immediately for direct sales of equipment to customers. Where equipment is provided to customers under mobile and fixed access subscription arrangements, payment for the equipment is received over the course of the contract term. For sales by our enterprise businesses, invoices are issued in line with contractual terms. Payments received in advance are recognised as contract liabilities, amounts billed in arrears are recognised as contract assets.

We are applying the practical expedient to recognise revenue “as-invoiced” for certain fixed access and mobile subscription services revenues. Where we have a right to invoice at an amount that directly corresponds with performance to date, we recognise revenue at that amount. We have also adopted the practical expedient not to calculate the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied for these contracts.

We do not have any material obligations in respect of returns, refunds or warranties. Where we act as an agent in a transaction, such as insurance services offered, we recognise commission net of directly attributable costs. Where the actual and estimated costs to completion of the contract exceed the estimated revenue, a loss is recognised immediately.

We exercise judgement in assessing whether the initial set-up, transition and transformation phases of long-term contracts are distinct from the other services to be delivered under the contract and therefore represent distinct performance obligations. This determines whether revenue is recognised in the early stages of the contract, or deferred until delivery of the other services promised in the contract begins.

We recognise immediately the entire estimated loss for a contract when we have evidence that the contract is unprofitable. If these estimates indicate that any contract will be less profitable than previously forecast, contract assets may have to be written down to the extent they are no longer considered to be fully recoverable. We perform ongoing profitability reviews of our contracts in order to determine whether the latest estimates are appropriate. Key factors reviewed include:

- Transaction volumes or other inputs affecting future revenues which can vary depending on customer requirements, plans, market position and other factors such as general economic conditions.
- Our ability to achieve key contract milestones connected with the transition, development, transformation and deployment phases for customer contracts.
- The status of commercial relations with customers and the implications for future revenue and cost projections.
- Our estimates of future staff and third-party costs and the degree to which cost savings and efficiencies are deliverable.

Revenue from lease arrangements in scope of IFRS 16

Some consumer broadband and TV products and arrangements to provide external communications providers with exclusive use of Openreach’s fixed-network telecommunications infrastructure meet the definition of operating leases under IFRS 16.

At inception of a contract, we determine whether the contract is, or contains a lease following the accounting policy set out in note 15. Arrangements meeting the definition of a lease in which we act as lessor are classified as operating or finance leases at lease inception based on an overall assessment of whether the lease transfers substantially all the risks and rewards incidental to ownership of the underlying asset. If this is the case then the lease is a finance lease; if not, it is an operating lease. For sub-leases, we make this assessment by reference to the characteristics of the right-of-use asset associated with the head lease rather than the underlying leased asset.

Income from arrangements classified as operating leases is presented as revenue where it relates to our core operating activities, for example leases of fixed-line telecommunications infrastructure to external communications providers and leases of devices to consumer customers as part of fixed access subscription products. Operating lease income from other arrangements is presented within other operating income (note 6).

We recognise operating lease payments as income on a straight-line basis over the lease term. Any upfront payments received, such as connection fees, are deferred over the lease term. Determining the lease term is subject to the significant judgements set out in note 15.

Where the contract contains both lease and non-lease components, the transaction price is allocated between the components on the basis of relative stand-alone selling price.

Where an arrangement is assessed as a finance lease we derecognise the underlying asset and recognise a receivable equivalent to the net investment in the lease. The receivable is measured based on future payments to be received discounted using the interest rate implicit in the lease, adjusted for any direct costs. Any difference between the derecognised asset and the finance lease receivable is recognised in the income statement. Where the nature of services delivered relates to our core operating activities it is presented as revenue. Where it relates to non-core activities it is presented within other operating income (note 6).

Notes to the consolidated financial statements continued

5. Revenue continued

Disaggregation of external revenue

The following table disaggregates external revenue by our major service lines and by reportable segment.

Year ended 31 March 2022	Consumer £m	Enterprise £m	Global £m	Openreach £m	Other £m	Total £m
ICT and managed networks	–	1,715	1,672	–	–	3,387
Fixed access subscriptions	3,991	1,696	268	2,564	–	8,519
Mobile subscriptions	3,247	1,176	87	–	–	4,510
Equipment and other services	2,537	465	1,335	65	27	4,429
Revenue before specific items	9,775	5,052	3,362	2,629	27	20,845
Specific items ^a (note 9)						5
Revenue						20,850
Year ended 31 March 2021	Consumer £m	Enterprise £m	Global £m	Openreach £m	Other £m	Total £m
ICT and managed networks	–	1,993	1,977	–	–	3,970
Fixed access subscriptions	4,089	1,762	321	2,426	–	8,598
Mobile subscriptions	3,492	1,262	87	–	–	4,841
Equipment and other services	2,207	323	1,346	62	23	3,961
Revenue before specific items	9,788	5,340	3,731	2,488	23	21,370
Specific items ^a (note 9)						(39)
Revenue						21,331

a Relates to regulatory matters classified as specific. See note 9.

Revenue expected to be recognised in future periods for performance obligations that are not complete (or are partially complete) as at 31 March 2022 is £13,502m (FY21: £13,317m). Of this, £7,108m (FY21: £7,415m) relates to ICT and managed services contracts and equipment and other services which will substantially be recognised as revenue within three years. Fixed access and mobile subscription services typically have shorter contract periods and so £6,394m (FY21: £5,902m) will substantially be recognised as revenue within two years.

Revenue recognised this year relating to performance obligations that were satisfied, or partially satisfied, in previous years was not material. Revenue related to customers' unexercised rights (for example, unused amounts on prepaid SIM cards) was not material.

Lease income

Presented within revenue is £2,745m (FY21: £2,496m) income from arrangements classified as operating leases under IFRS 16 and which represent core business activities for the group. Income relates predominantly to Openreach's leases of fixed-line telecommunications infrastructure to external communications providers, classified as fixed access subscription revenue in the table above, and leases of devices to Consumer customers as part of fixed access subscription offerings, classified as equipment and other services.

During the year we also recognised £33m (FY21: £36m) operating lease income from non-core business activities which is presented in other operating income (note 6). This income relates primarily to sub-leases of unutilised properties.

Note 15 presents an analysis of payments to be received across the remaining term of operating lease arrangements.

We did not enter into any material finance lease arrangements during the year. In FY21 we renegotiated a non-strategic revenue contract delivered using elements of our leased buildings infrastructure, in exchange for an up-front payment of £196m. The revised arrangement, previously classified as an operating sub-lease, was reassessed as a finance sub-lease in line with the accounting policy set out above. We derecognised the £208m carrying amount of the associated right-of-use asset and a net deferred income balance of £33m previously reported within trade and other payables, and recognised in revenue a gain on disposal of £21m, consistent with the presentation of the previous operating lease income. As no further amounts were due, no finance lease receivable was recognised.

5. Revenue continued



Contract assets and liabilities

Significant accounting policies that apply to contract assets and liabilities

We recognise contract assets for goods and services for which control has transferred to the customer before consideration is due. These assets mainly relate to mobile handsets provided upfront but paid for over the course of a contract. Contract assets are reclassified as receivables when the right to payment becomes unconditional and we have billed the customer.

Contract liabilities are recognised when we have received advance payment for goods and services that we have not transferred to the customer. These primarily relate to fees received for connection and installation services that are not distinct performance obligations.

Where the initial set-up, transition or transformation phase of a long-term contract is considered to be a distinct performance obligation we recognise a contract asset for any work performed but not billed. Conversely a contract liability is recognised where these activities are not distinct performance obligations and we receive upfront consideration. In this case eligible costs associated with delivering these services are capitalised as fulfilment costs, see note 17.

We provide for expected lifetime losses on contract assets following the policy set out in note 17.

Contract assets and liabilities are as follows:

Year ended 31 March	2022 £m	2021 £m
Contract assets		
Current	1,554	1,515
Non-current	361	344
	1,915	1,859
Contract liabilities		
Current	833	925
Non-current	170	167
	1,003	1,092

£880m of the contract liability at 31 March 2021 was recognised as revenue during the year (FY21: £886m). Impairment losses of £48m were recognised on contract assets during the year (FY21: £47m).

The expected credit loss provisions recognised against contract assets vary across the group due to the nature of our customers; the expected loss rate at 31 March 2022 was 3% (FY21: 4%).

Notes to the consolidated financial statements continued

6. Operating costs

Year ended 31 March	Notes	2022 £m	2021 £m
Operating costs by nature			
Staff costs:			
Wages and salaries		3,746	4,096
Social security costs		400	403
Other pension costs	20	591	591
Share-based payment expense	22	108	72
Total staff costs		4,845	5,162
Own work capitalised		(989)	(895)
Net staff costs		3,856	4,267
Net indirect labour costs ^a		354	294
Net labour costs		4,210	4,561
Product costs ^b		3,166	3,387
Sales commissions ^b		628	683
Payments to telecommunications operators		1,346	1,517
Property and energy costs		1,028	1,025
Network operating and IT costs		904	916
TV programme rights charges		879	786
Provision and installation		678	558
Marketing and sales		312	255
Net impairment losses on trade receivables and contract assets ^c		102	150
Other operating costs		256	343
Other operating income		(241)	(226)
Depreciation and amortisation ^d			
Property, plant and equipment	14	2,669	2,460
Right-of-use assets	15	688	690
Intangible assets	13	1,048	1,197
Total operating costs before specific items		17,673	18,302
Specific items	9	292	442
Total operating costs		17,965	18,744
Operating costs before specific items include the following:			
Leaver costs ^e		15	11
Research and development expenditure ^f		604	720
Foreign currency losses/(gains)		3	(9)
Inventories recognised as an expense		2,297	2,315

a Net of capitalised indirect labour costs of £871m (FY21: £748m).

b Product costs and sales commissions now presented as separate line items having historically been combined. FY21 comparatives have been re-presented for consistency.

c Consists of net impairment losses on trade receivables and contract assets in Consumer of £86m (FY21: £115m), in Enterprise of £5m (FY21: £33m), in Global of £7m (FY21: £nil), in Openreach of £3m (FY21: £2m) and in Other of £1m (FY21: £nil).

d FY22 depreciation and amortisation charges include impairment of £13m on intangible assets, £11m on owned assets and £12m on right-of-use assets.

e Leaver costs are included within wages and salaries, except for leaver costs of £170m (FY21: £270m) associated with restructuring costs, which have been recorded as specific items.

f Research and development expenditure includes amortisation of £543m (FY21: £650m) in respect of capitalised development costs and operating expenses of £61m (FY21: £69m). In addition, the group capitalised software development costs of £601m (FY21: £519m).

During the year we implemented a new accounting system along with a new chart of accounts that has provided improved visibility of the group's cost base. As a result we have refined the classification of costs within the operating costs disclosure for FY22. Improved data has allowed us to better allocate subcontractor costs to indirect labour costs, and allocate more costs to named cost categories as opposed to within other operating costs. Following detailed analysis of the underlying causes of reallocations we have concluded they are not indicative of material errors in previously published financial data including the FY21 comparatives.

6. Operating costs continued

Who are our key management personnel and how are they compensated?

Key management personnel comprise executive and non-executive directors and members of the Executive Committee.

Compensation of key management personnel is shown in the table below:

Year ended 31 March	2022 £m	2021 £m
Short-term employee benefits	17.7	9.3
Post employment benefits ^a	0.7	0.9
Share-based payments	6.7	4.9
Termination benefits	–	0.2
	25.1	15.3

^a Post employment benefits include cash pension allowances paid to the chief executive and chief financial officer. The group does not contribute to defined contribution or defined benefit pension schemes on behalf of key management personnel.

Key management personnel are compensated solely in the form of cash and share-based payments. During the current and prior years, key management personnel made no gains from exercise of share options.

7. Employees

Number of employees in the group ^a	2022		2021	
	Year end 000	Average 000	Year end 000	Average 000
UK	79.9	80.2	80.4	81.3
Non-UK	18.5	18.8	19.3	20.9
Total employees	98.4	99.0	99.7	102.2

Number of employees in the group ^a	2022		2021	
	Year end 000	Average 000	Year end 000	Average 000
Consumer	16.6	17.2	18.5	19.2
Enterprise	11.5	11.4	11.3	11.4
Global	13.2	13.8	12.8	14.4
Openreach	37.3	36.4	35.4	34.8
Other	19.8	20.2	21.7	22.4
Total employees	98.4	99.0	99.7	102.2

^a These reflect the full-time equivalent of full and part-time employees.

8. Audit, audit related and other non-audit services

The following fees were paid or are payable to the company's auditors, KPMG LLP and other firms in the KPMG network.

Year ended 31 March	2022 £000	2021 £000
Fees payable to the company's auditors and its associates for:		
Audit services ^a		
The audit of the parent company and the consolidated financial statements	11,400	10,482
The audit of the company's subsidiaries	6,009	6,280
	17,409	16,762
Audit related assurance services^b	3,169	1,993
Other non-audit services		
All other assurance services	127	155
Total services	20,705	18,910

^a Services in relation to the audit of the parent company and the consolidated financial statements. This also includes fees payable for the statutory audits of the financial statements of subsidiary companies. This excludes amounts for the audit of BT Group Employee Share Ownership Trust and Ilford Trustees (Jersey) Limited amounting to £22,000 (FY21: £21,000).

^b Includes services that are required by law or regulation to be carried out by an appointed auditor and services that support us to fulfil obligations required by law or regulation. This includes fees for the review of interim results and the accrued fee for the audit of the group's regulatory financial statements. In FY22 this included fees of £789,000 to support divestment transactions (FY21: £nil).

Notes to the consolidated financial statements continued

8. Audit, audit related and other non-audit services continued

The BT Pension Scheme is an associated pension fund as defined in the Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) (Amendment) Regulations 2011. In FY22 KPMG LLP received total fees from the BT Pension Scheme of £1.6m (FY21: £1.5m) in respect of the following services:

Year ended 31 March	2022 £000	2021 £000
Audit of financial statements of associates	1,602	1,494
Audit-related assurance services	16	9
Total services	1,618	1,503

9. Specific items

Significant accounting policies that apply to specific items

Our income statement and segmental analysis separately identify trading results on an adjusted basis, being before specific items. The directors believe that presentation of the group's results in this way is relevant to an understanding of the group's financial performance as specific items are those that in management's judgement need to be disclosed by virtue of their size, nature or incidence.

This presentation is consistent with the way that financial performance is measured by management and reported to the Board and the Executive Committee and assists in providing an additional analysis of our reporting trading results. Specific items may not be comparable to similarly titled measures used by other companies.

In determining whether an event or transaction is specific, management considers quantitative as well as qualitative factors. Examples of charges or credits meeting the above definition and which have been presented as specific items in the current and/or prior years include business restructuring programmes, acquisitions and disposals of businesses and investments, charges or credits relating to retrospective regulatory matters, property rationalisation programmes, significant out of period contract settlements, net interest on our pension obligation, and the impact of remeasuring deferred tax balances. In the event that items meet the criteria, which are applied consistently from year to year, they are treated as specific items. Any releases to provisions originally booked as a specific item are also classified as specific.

In FY20 we included the impacts of Covid-19 on various balance sheet items as at 31 March 2020 as specific. Any releases to this provision have been released through specific items in FY21 and FY22. The impact of Covid-19 on underlying trading is recognised in our underlying (adjusted) results and not as a specific item.

Year ended 31 March	2022 £m	2021 £m
Revenue		
Retrospective regulatory matters	(5)	39
	(5)	39
Operating costs		
Restructuring charges	347	421
Divestment-related items	(36)	(60)
Covid-19	(19)	(17)
Retrospective regulatory matters	–	(4)
Settlement with Dixons Carphone	–	149
Sale of spectrum	–	(66)
Property rationalisation	–	19
	292	442
Operating loss	287	481
Net finance expense		
Divestment-related items	8	–
Interest expense on retirement benefit obligation	93	18
	101	18
Net specific items charge before tax	388	499
Taxation		
Tax credit on specific items above	(80)	(96)
Tax charge on re-measurement of deferred tax	420	–
	340	(96)
Net specific items charge after tax	728	403

9. Specific items continued

Retrospective regulatory matters

We recognised a net credit of £5m (FY21: net charge of £35m) in relation to historic regulatory matters, recognised in revenue. This reflects the movement in provisions relating to various matters.

Restructuring charges

In the year we have incurred charges of £347m (FY21: £421m), primarily relating to leaver costs, staff costs where colleagues are working exclusively on transformation programmes, and consultancy costs. These costs reflect projects within our Group-wide modernisation programme, first announced in May 2020, which will deliver gross annualised cost benefits of £2.5bn by FY25, at an expected cost of £1.3bn. £0.8bn costs have been incurred to date.

Divestment-related items

We recognised a credit of £36m (FY21: £60m). This primarily relates to a gain on disposal of £43m relating to the sale of Diamond IP, a non-core software business in America. This was offset by an £8m loss on disposal of business units in Italy serving customers in the public administration and SME sectors. There were also some small true-up charges on previous transactions and costs relating to ongoing divestment projects. A charge of £8m (FY21: £nil) was also recognised in finance expense relating to a hedge which became ineffective due to divestment activity.

In FY21 we completed the sale of our domestic operations in Spain and recorded a net gain of £80m. We also incurred net losses on the disposal of our domestic operations in Latin America and France of £11m and recognised £9m of other divestment related costs, including an additional £4m loss on disposal of a number of other businesses.

Covid-19

In FY20 we recognised one-off charges of £95m relating to the impact of Covid-19 on various balance sheet items. Any releases of this provision have also been booked as a specific item. During FY22 we released £19m (FY21: £17m) of these provisions which were not needed. At 31 March 2022 we retained £12m (31 March 2021: £55m) of provisions related to Covid-19.

Settlement with Dixons Carphone

In FY21, following the expiry of the retail agreement between Dixons Carphone and EE Limited, we mutually agreed to resolve all outstanding matters which primarily related to contingent revenue share costs that could have previously been recognised over future years. The associated cost of £149m which includes the agreed cash payment and the write-off of balance sheet prepayments and accruals was treated as a specific item in the FY21 results. The associated cash payment was made in April 2021.

Sale of spectrum

In FY21 we sold 25 MHz of unpaired 2.6 GHz spectrum and recognised a gain on disposal of £66m as a specific item.

Property rationalisation costs

In FY21, we recognised costs of £19m relating to rationalisation of our property portfolio under our Better Workplace programme. In FY22, property rationalisation costs have been classified as restructuring charges where they fall under the previously announced transformation programme.

Interest expense on retirement benefit obligation

During the year we incurred £93m (FY21: £18m) of interest costs in relation to our defined benefit pension obligations.

Tax on specific items

A tax credit of £80m (FY21: £96m) was recognised in relation to specific items.

Remeasurement of deferred tax balances

We have remeasured our deferred tax balances following the enactment of the new UK corporation tax rate of 25% from April 2023. The corresponding adjustment comprises a net tax charge of £420m in the income statement and a non-recurring tax credit of £298m in the statement of comprehensive income. This is classified as a specific item due to its size and the out of period nature of this charge.

Notes to the consolidated financial statements continued

10. Taxation

Significant accounting policies that apply to taxation

Current income tax is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the group's subsidiaries, associates and joint ventures operate and generate taxable income. We periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation, and establish provisions where appropriate on the basis of the amounts expected to be paid to tax authorities.

Deferred tax is recognised, using the liability method, in respect of temporary differences between the carrying amount of our assets and liabilities and their tax base. Deferred tax is determined using tax rates that are expected to apply in the periods in which the asset is realised or liability settled, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Any remaining deferred tax asset is recognised only when, on the basis of all available evidence, it can be regarded as probable that there will be suitable taxable profits, within the same jurisdiction, in the foreseeable future against which the deductible temporary difference can be utilised. Deferred tax balances for which there is a right of offset within the same jurisdiction are presented net on the face of the group balance sheet as permitted by IAS 12, with the exception of deferred tax related to our pension schemes which is disclosed within deferred tax assets.

Critical accounting estimates and significant judgements made in accounting for taxation

We seek to pay tax in accordance with the laws of the countries where we do business. However, in some areas these laws are unclear, and it can take many years to agree an outcome with a tax authority or through litigation. We estimate our tax on country-by-country and issue-by-issue bases. Our key uncertainties are whether EE's tax losses will be available to us, whether our intra-group trading model will be accepted by a particular tax authority and whether intra-group payments are subject to withholding taxes. We provide for the predicted outcome where an outflow is probable, but the agreed amount can differ materially from our estimates. Approximately 81% by value of the provisions are under active tax authority examination and are therefore likely to be re-estimated or resolved in the coming 12 months. £194m (FY21: £200m) is included in current tax liabilities or offset against current tax assets where netting is appropriate.

Under a downside case an additional amount of £543m could be required to be paid, of which £444m would relate to EE losses. This amount is not provided as we don't consider this outcome to be probable.

Deciding whether to recognise deferred tax assets is judgemental. We only recognise them when we consider it is probable that they can be recovered. In making this judgement we consider evidence such as historical financial performance, future financial plans and trends, the duration of existing customer contracts and whether our intra-group pricing model has been agreed by the relevant tax authority.

The value of the group's income tax assets and liabilities is disclosed on the group balance sheet. The value of the group's deferred tax assets and liabilities is disclosed below.

Analysis of our taxation expense for the year

Year ended 31 March	2022 £m	2021 £m
United Kingdom		
Corporation tax at 19% (FY21: 19%)	–	(300)
Adjustments in respect of earlier years ^a	223	6
Non-UK taxation		
Current	(78)	(65)
Adjustments in respect of earlier years	7	6
Total current taxation (expense)	152	(353)
Deferred taxation		
Origination and reversal of temporary differences	(102)	6
Adjustments in respect of earlier years ^a	(190)	12
Impact of change in UK corporation tax rate to 25% (FY21: 19%)	(420)	–
Remeasurement of temporary differences	(129)	3
Total deferred taxation (expense) / credit	(841)	21
Total taxation (expense)	(689)	(332)

^a During the period certain prior period tax issues were resolved at a net tax cost of £69m, comprising a £263m deferred tax charge and a £194m current tax credit.

10. Taxation continued

Factors affecting our taxation expense for the year

The taxation expense on the profit for the year differs from the amount computed by applying the UK corporation tax rate to the profit before taxation as a result of the following factors:

Year ended 31 March	2022 £m	2021 £m
Profit before taxation	1,963	1,804
Expected taxation expense at UK rate of 19% (FY21: 19%)	(373)	(343)
Effects of:		
(Higher)/lower taxes on non-UK profits	(4)	15
Net permanent differences between tax and accounting ^a	179	(34)
Adjustments in respect of earlier years ^b	40	24
Prior year non-UK losses used against current year profits	20	12
Non-UK losses not recognised ^c	(2)	(9)
Re-measurement of deferred tax balances	(549)	3
Total taxation expense	(689)	(332)
Exclude specific items (note 9)	340	(96)
Total taxation expense before specific items	(349)	(428)

a Includes income that is not taxable or UK income taxable at a different rate, and expenses for which no tax relief is received. Examples include some types of depreciation and amortisation, the benefit of R&D tax incentives and super-deduction on capital expenditure. The most significant element of this amount is the benefit from the super-deduction (£172m).

b Reflects the differences between initial accounting estimates and tax returns submitted to tax authorities, including the release and establishment of provisions for uncertain tax positions.

c Reflects losses made in countries where it has not been considered appropriate to recognise a deferred tax asset, as future taxable profits are not probable.

Tax components of other comprehensive income

Year ended 31 March	2022 Tax credit (expense) £m	2021 Tax credit (expense) £m
Taxation on items that will not be reclassified to the income statement		
Pension remeasurements	(399)	918
Tax on items that have been or may be reclassified subsequently to the income statement		
Exchange differences on translation of foreign operations	–	22
Fair value movements on cash flow hedges		
– net fair value gains or (losses)	(31)	111
– recognised in income and expense	–	–
Total tax recognised in other comprehensive income	(430)	1,051
Current tax credit ^a	8	203
Deferred tax credit (expense)	(438)	848
Total tax recognised in other comprehensive income	(430)	1,051

a Includes £nil (FY21: £181m) relating to cash contributions made to reduce retirement benefit obligations.

Tax (expense) credit recognised directly in equity

Year ended 31 March	2022 £m	2021 £m
Tax (expense) credit relating to share-based payments	11	5

Notes to the consolidated financial statements continued

10. Taxation continued

Deferred taxation

	Fixed asset temporary differences £m	Retirement benefit obligations ^a £m	Share- based payments £m	Tax losses £m	Other £m	Jurisdictional offset £m	Total £m
At 1 April 2020	1,590	(176)	(7)	(66)	(33)	–	1,308
Expense (credit) recognised in the income statement	(11)	(13)	(8)	2	9	–	(21)
Expense (credit) recognised in other comprehensive income	–	(737)	–	–	(111)	–	(848)
Exchange differences	–	–	(5)	–	–	–	(5)
Transfer to held for sale (note 23)	8	–	–	(2)	–	–	6
At 31 March 2021	1,587	(926)	(20)	(66)	(135)	–	440
Non-current							
Deferred tax asset	–	(926)	(20)	(66)	(135)	158	(989)
Deferred tax liability	1,587	–	–	–	–	(158)	1,429
At 31 March 2021	1,587	(926)	(20)	(66)	(135)	–	440
Expense (credit) recognised in the income statement	1,326	(33)	(5)	(434)	(13)	–	841
Expense (credit) recognised in other comprehensive income	–	764	–	(354)	28	–	438
Expense (credit) recognised in equity	–	–	(11)	–	–	–	(11)
Acquisition of subsidiary	–	–	–	(3)	–	–	(3)
Transfer from current tax	–	–	–	–	(34)	–	(34)
At 31 March 2022	2,913	(195)	(36)	(857)	(154)	–	1,671
Non-current							
Deferred tax asset	–	(195)	(36)	(857)	(154)	953	(289)
Deferred tax liability	2,913	–	–	–	–	(953)	1,960
At 31 March 2022	2,913	(195)	(36)	(857)	(154)	–	1,671

^a Includes a deferred tax asset of £5m (FY21: £1m) arising on contributions payable to defined contribution pension plans.

The majority of the deferred tax assets and liabilities noted above are anticipated to be realised after more than 12 months.

What factors affect our future tax charges?

We expect a large proportion of our capital spend on fibre roll-out to be eligible for the Government's super-deduction regime, which allows for enhanced and accelerated tax relief for qualifying capital expenditure. These enhanced deductions are available for FY22 and FY23, driving a projected UK tax loss and no UK tax payments for these periods. These deductions together with accelerated deductions relating to pension contributions result in c.£5bn of tax losses expected to be carried forward from FY23.

What are our unrecognised tax losses and other temporary differences?

At 31 March 2022 we had operating losses and other temporary differences carried forward in respect of which no deferred tax assets were recognised amounting to £3.8bn (FY21: £4.1bn). Our other temporary differences have no expiry date restrictions. The expiry date of operating losses carried forward is dependent upon the tax law of the various territories in which the losses arose. A summary of expiry dates for losses in respect of which restrictions apply is set out below:

At 31 March 2022	£m	Expiry
Restricted losses		
Europe	1	2022 – 2025
Americas	368	2022 – 2045
Other	3	2022 – 2030
Total restricted losses	372	
Unrestricted operating losses	3,095	No expiry
Other temporary differences	313	No expiry
Total	3,780	

10. Taxation continued

At 31 March 2022 we had UK capital losses carried forward in respect of which no deferred tax assets were recognised amounting to £16.8bn (FY21: £16.8bn). These losses have no expiry date, but we consider the future utilisation of significant amounts of these losses to be remote.

At 31 March 2022 the undistributed earnings of non-UK subsidiaries were £1.9bn (FY21: £1.8bn). No deferred tax liabilities have been recognised in respect of these unremitted earnings because the group is in a position to control the timing of any dividends from subsidiaries and hence any tax consequences that may arise. Under current tax rules, tax of £35m (FY21: £43m) would arise if these earnings were to be repatriated to the UK.

11. Earnings per share

How is earnings per share calculated?

Basic earnings per share is calculated by dividing the profit after tax attributable to equity shareholders by the weighted average number of shares in issue after deducting the own shares held by employee share ownership trusts and treasury shares.

In calculating the diluted earnings per share, share options outstanding and other potential shares have been taken into account where the impact of these is dilutive.

Year ended 31 March	2022	2021
Basic weighted average number of shares (millions)	9,866	9,905
Dilutive shares from share options (millions)	105	30
Dilutive shares from share awards (millions)	165	137
Diluted weighted average number of shares (millions)	10,136	10,072
Basic earnings per share	12.9p	14.8p
Diluted earnings per share	12.5p	14.6p

The earnings per share calculations are based on profit after tax attributable to equity shareholders of the parent company which excludes non-controlling interests. Profit after tax was £1,274m (FY21: £1,472m) and profit after tax attributable to non-controlling interests was £2m (FY21: £3m). Profit attributable to non-controlling interests is not presented separately in the financial statements as it is not material.

12. Dividends

What is the group's dividend policy?

We have a progressive dividend policy to maintain or grow the dividend each year whilst taking into consideration a number of factors including underlying medium-term earnings expectations and levels of business reinvestment.

What dividends have been paid?

A final dividend of 5.39p per share amounting to approximately £528m is proposed in respect of the year ended 31 March 2022 (FY21: no final dividend paid). An interim dividend of 2.31p per share amounting to £227m was paid on 7 February 2022 (FY21: no interim dividend paid). This value may differ from the amount shown for equity dividends paid in the group cash flow statement, which represents the actual cash paid in relation to dividend cheques that have been presented over the course of the financial year.

No dividends were paid in the year ended 31 March 2021.

Year ended 31 March	2022		2021	
	pence per share	£m	pence per share	£m
Interim dividend in respect of the current year	2.31	227	–	–

Notes to the consolidated financial statements continued

13. Intangible assets

Significant accounting policies that apply to intangible assets

We recognise identifiable intangible assets where we control the asset, it is probable that future economic benefits attributable to the asset will flow to the group, and we can reliably measure the cost of the asset. We amortise all intangible assets, other than goodwill, over their useful economic life. The method of amortisation reflects the pattern in which the assets are expected to be consumed. If the pattern cannot be determined reliably, the straight line method is used.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the identifiable net assets (including intangible assets) of the acquired business. Our goodwill impairment policy is set out later in this note.

Acquired intangible assets – customer relationships and brands

Intangible assets such as customer relationships or brands acquired through business combinations are recorded at fair value at the date of acquisition and subsequently carried at amortised cost. Assumptions are used in estimating the fair values of these relationships or brands and include management's estimates of revenue and profits to be generated by them.

Telecommunications licences

Licence fees paid to governments, which permit telecommunications activities to be operated for defined periods, are initially recorded at cost and amortised from the time the network is available for use to the end of the licence period or where our usage can extend beyond the initial licence period, over the period we expect to benefit from the use of the licences, which is typically 20 years. Licences acquired through business combinations are recorded at fair value at the date of acquisition and subsequently carried at amortised cost. The fair value is based on management's assumption of future cash flows using market expectations at acquisition date.

Computer software

Computer software comprises computer software licences purchased from third parties, and also the cost of internally developed software. Computer software licences purchased from third parties are initially recorded at cost. We only capitalise costs directly associated with the production of internally developed software, including direct and indirect labour costs of development, where it is probable that the software will generate future economic benefits, the cost of the asset can be reliably measured and technical feasibility can be demonstrated, in which case it is capitalised as an intangible asset on the balance sheet. Costs which do not meet these criteria and research costs are expensed as incurred.

Our development costs which give rise to internally developed software include upgrading the network architecture or functionality and developing service platforms aimed at offering new services to our customers.

Other

Other intangible assets include website development costs and other licences. Items are capitalised at cost and amortised on a straight line basis over their useful economic life or the term of the contract.

Estimated useful economic lives

The estimated useful economic lives assigned to the principal categories of intangible assets are as follows:

- Computer software 2 to 10 years
- Telecommunications licences 2 to 20 years
- Customer relationships and brands 1 to 15 years

Impairment of intangible assets

Intangible assets with finite useful lives are tested for impairment if events or changes in circumstances (assessed at each reporting date) indicate that the carrying amount may not be recoverable. When an impairment test is performed, the recoverable amount is assessed by reference to the higher of the net present value of the expected future cash flows (value in use) of the relevant cash generating unit and the fair value less costs to dispose.

Goodwill is reviewed for impairment at least annually as described below. Impairment losses are recognised in the income statement, as a specific item. If a cash generating unit is impaired, impairment losses are allocated firstly against goodwill, and secondly on a pro-rata basis against intangible and other assets.

13. Intangible assets continued

	Goodwill £m	Customer relationships and brands ^a £m	Telecoms licences and other ^b £m	Internally developed software ^c £m	Purchased software ^c £m	Total £m
Cost						
At 1 April 2020	7,945	3,397	3,032	4,354	1,118	19,846
Additions	–	–	–	596	187	783
Disposals and adjustments ^d	1	–	(19)	(240)	(122)	(380)
Transfers	–	–	–	46	(37)	9
Exchange differences	(108)	(14)	–	(3)	(11)	(136)
At 31 March 2021	7,838	3,383	3,013	4,753	1,135	20,122
Additions ^e	–	–	479	793	151	1,423
Acquisitions	94	–	–	–	2	96
Disposals and adjustments ^d	(7)	–	(3)	(239)	(272)	(521)
Transfers	–	–	1	45	(44)	2
Exchange differences	43	–	–	1	(1)	43
Transfer to assets held for sale ^f	(51)	–	–	(7)	–	(58)
At 31 March 2022	7,917	3,383	3,490	5,346	971	21,107
Accumulated amortisation						
At 1 April 2020	–	1,930	574	2,951	502	5,957
Charge for the year	–	322	162	593	120	1,197
Disposals and adjustments ^d	–	–	(2)	(242)	(119)	(363)
Transfers	–	–	–	(1)	1	–
Exchange differences	–	(14)	–	(2)	(10)	(26)
At 31 March 2021	–	2,238	734	3,299	494	6,765
Charge for the year ^g	–	231	179	529	109	1,048
Disposals and adjustments ^d	–	–	(5)	(229)	(278)	(512)
Transfers	–	–	–	(2)	2	–
Exchange differences	–	–	–	1	(1)	–
Transfer to assets held for sale ^f	–	–	–	(3)	–	(3)
At 31 March 2022	–	2,469	908	3,595	326	7,298
Carrying amount						
At 31 March 2021	7,838	1,145	2,279	1,454	641	13,357
At 31 March 2022	7,917	914	2,582	1,751	645	13,809

a The remaining unamortised balance of customer relationships and brands relates to customer relationships recognised on acquisition of EE.

b Telecoms licences and other primarily represents spectrum licences. These include 2100 MHz licence with book value of £693m (FY21: £744m), 1800 MHz with book value of £636m (FY21: £682m), 700MHz with book value of £297m (FY21: £nil), 3400 MHz with book value of £258m (FY21: £274m) and 2600 MHz with book value of £227m (FY21: £247m). Spectrum licences are being amortised over a period between 14 and 20 years.

c Includes a carrying amount of £1,046m (FY21: £608m) in respect of assets under construction, which are not yet amortised.

d Fully depreciated assets in the group's fixed asset registers were reviewed during the year, as part of the group's annual asset verification exercise, and certain assets that were no longer in use have been written off, reducing cost and accumulated depreciation by £0.4bn (FY21: £0.3bn).

e Additions to telecoms licences and other assets include £479m recognised in relation to spectrum which represents the amount paid to Ofcom to secure the spectrum bands together with the related interference mitigation provision.

f Assets transferred to held for sale during FY22 relate to our BT Sport operations. See note 23.

g Amortisation charge for FY22 includes impairment charges of £13m.

Notes to the consolidated financial statements continued

13. Intangible assets continued

Impairment of goodwill

Significant accounting policies that apply to impairment of goodwill

We perform an annual goodwill impairment review.

Goodwill recognised in a business combination does not generate cash flows independently of other assets or groups of assets. As a result, the recoverable amount, being the value in use, is determined at a cash generating unit (CGU) level. These CGUs represent the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other groups of assets. Our CGUs are deemed to be Consumer, Enterprise, and Global.

We allocate goodwill to each of the CGUs that we expect to benefit from the business combination. Each CGU to which goodwill is allocated represents the lowest level within the group at which the goodwill is monitored for internal management purposes.

The value in use of each CGU is determined using cash flow projections derived from financial plans approved by the Board covering a five-year period. They reflect management's expectations of revenue, EBITDA growth, capital expenditure, working capital and operating cash flows, based on past experience and future expectations of business performance. Cash flows beyond the fifth year have been extrapolated using perpetuity growth rates.

Key accounting estimates and significant judgements made in reviewing goodwill for impairment

Determining our CGUs

The determination of our CGUs is judgemental. The identification of CGUs involves an assessment of whether the asset or group of assets generate largely independent cash inflows. This involves consideration of how our core assets are operated and whether these generate independent revenue streams. During the year we have reviewed our CGUs and have brought together the Legacy BT Consumer and Legacy EE CGUs into a combined 'Consumer' CGU, aligning our CGUs to our CFUs, due to increased convergence between the prior CGUs such that cash inflows are no longer independent.

Estimating value in use

Our value in use calculations require estimates in relation to uncertain items, including management's expectations of future revenue growth, operating costs, profit margins, operating cash flows, and the discount rate for each CGU. Future cash flows used in the value in use calculations are based on our latest Board-approved five-year financial plans. Expectations about future growth reflect the expectations of growth in the markets to which the CGU relates. The future cash flows are discounted using a pre-tax discount rate that reflects current market assessments of the time value of money. The discount rate used in each CGU is adjusted for the risk specific to the asset, including the countries in which cash flow will be generated, for which the future cash flow estimates have not been adjusted.

We tested our goodwill for impairment as at 31 March 2022. The carrying value of goodwill and the key assumptions used in performing the annual impairment assessment and sensitivities are disclosed below.

Cost	Consumer £m	Legacy BT Consumer £m	Legacy EE £m	Enterprise £m	Global £m	Total £m
At 1 April 2020	–	1,183	2,768	3,483	511	7,945
Exchange differences	–	–	–	(8)	(100)	(108)
Acquisitions and disposals	–	–	–	–	1	1
At 31 March 2021	–	1,183	2,768	3,475	412	7,838
Transfer	3,951	(1,183)	(2,768)	–	–	–
Exchange differences	–	–	–	4	39	43
Acquisitions and disposals	–	–	–	94	(7)	87
Transfer to assets held for sale ^a	(51)	–	–	–	–	(51)
At 31 March 2022	3,900	–	–	3,573	444	7,917

a Assets transferred to held for sale during FY22 relate to our BT Sport operations. See note 23.

The increase in goodwill is driven primarily by the acquisition of the remaining 30% of the share capital of BT OnePhone Limited.

What discount rate have we used?

The pre-tax discount rates applied to the cash flow forecasts are derived from our post-tax weighted average cost of capital. The assumptions used in the calculation of the group's weighted average cost of capital are benchmarked to externally available data. The pre-tax discount rate used in performing the value in use calculation in FY22 was 7.6% (FY21: 8.1%). We have used the same discount rate for all CGUs except Global where we have used 7.9% (FY21: 8.5%) reflecting higher risk in some of the countries in which Global operates.

13. Intangible assets continued

What growth rates have we used?

The perpetuity growth rates are determined based on the forecast market growth rates of the regions in which the CGU operates, and reflect an assessment of the long-term growth prospects of that market. The growth rates have been benchmarked against external data for the relevant markets. None of the growth rates applied exceed the expected average long-term growth rates for those markets or sectors. We used a perpetuity growth rate of 2.3% (FY21: 2.3%) for Global and 2.0% (FY21: 2.0%) for Enterprise and Consumer.

What sensitivities have we applied?

There is significant headroom in all of our CGUs, such that at this point in time there are no reasonably possible changes to key assumptions that would result in an impairment.

14. Property, plant and equipment

Significant accounting policies that apply to property, plant and equipment

Our property, plant and equipment is included at historical cost, net of accumulated depreciation, government grants and any impairment charges. Property, plant and equipment acquired through business combinations are initially recorded at fair value and subsequently accounted for on the same basis as our existing assets. We derecognise items of property, plant and equipment on disposal or when no future economic benefits are expected to arise from the continued use of the asset. The difference between the sale proceeds and the net book value at the date of disposal is recognised in operating costs in the income statement.

Included within the cost of network infrastructure and equipment are direct and indirect labour costs, materials and directly attributable overheads.

We depreciate property, plant and equipment on a straight line basis from the time the asset is available for use, to write off the asset's cost over the estimated useful life taking into account any expected residual value. Freehold land is not depreciated.

Estimated useful economic lives

The estimated useful lives assigned to principal categories of assets are as follows:

Land and buildings

- | | |
|-------------------------------------|--|
| • Freehold buildings | 14 to 50 years |
| • Short-term leasehold improvements | Shorter of 10 years or lease term |
| • Leasehold land and buildings | Unexpired portion of lease or 40 years, whichever is the shorter |

Network infrastructure

- | | |
|-------------------------|---------------|
| Transmission equipment | |
| • Duct | 40 years |
| • Cable | 3 to 25 years |
| • Fibre | 5 to 20 years |
| Exchange equipment | 2 to 13 years |
| Other network equipment | 2 to 20 years |

Other assets

- | | |
|----------------------------------|---------------|
| • Motor vehicles | 2 to 10 years |
| • Computers and office equipment | 3 to 7 years |

Residual values and useful lives are reassessed annually and, if necessary, changes are recognised prospectively. In FY22 we have updated the useful lives of motor vehicles from 2–9 to 2–10 years following a review of our specialised vehicle fleet.

Network share assets

Certain assets have been contributed to a network share arrangement by both EE and Hutchison 3G UK Limited, with legal title remaining with the contributor. This is considered to be a reciprocal arrangement. Our share of the assets on acquisition of EE were recognised at fair value within tangible assets, and depreciated in line with policy. Subsequent additions are recorded at cost.

Impairment of property, plant and equipment

We test property, plant and equipment for impairment if events or changes in circumstances (assessed at each reporting date) indicate that the carrying amount may not be recoverable. When an impairment test is performed, we assess the recoverable amount by reference to the higher of the net present value of the expected future cash flows (value in use) of the relevant asset and the fair value less costs to dispose. If it is not possible to determine the recoverable amount for the individual asset then we assess impairment by reference to the relevant cash generating unit as described in note 13.

Notes to the consolidated financial statements continued

14. Property, plant and equipment continued

Building Digital UK (BDUK) government grants

We receive government grants in relation to BDUK and other rural superfast broadband contracts. Where we have achieved certain service levels, or delivered the network more efficiently than anticipated, we have an obligation to either re-invest or repay grant funding. Where this is the case, we recognise deferred income in respect of the funding that will be re-invested or repaid, and make a corresponding adjustment to the carrying amount of the related property, plant and equipment.

Assessing the timing of whether and when we change the estimated take-up assumption is judgemental as it involves considering information which is not always observable. Our consideration on whether and when to change the base case assumption is dependent on our expectation of the long-term take-up trend.

Our assessment of how much grant income to defer includes consideration of the difference between the take-up percentage agreed with the local authority and the likelihood of actual take-up. The value of the government grants deferred is disclosed in note 18.

		Network infrastructure				
	Land and buildings £m	Held by Openreach £m	Held by other units £m	Other ^a £m	Assets under construction £m	Total £m
Cost						
At 1 April 2020	945	27,152	26,741	1,662	916	57,416
Additions ^b	10	(179)	114	69	3,401	3,415
Transfers	32	2,151	972	141	(3,305)	(9)
Disposals and adjustments ^c	(19)	(16)	(2,193)	(333)	(21)	(2,582)
Exchange differences	(22)	–	(146)	(19)	(1)	(188)
At 31 March 2021	946	29,108	25,488	1,520	990	58,052
Additions ^b	87	–	111	89	3,548	3,835
Transfers	18	2,128	813	156	(3,117)	(2)
Disposals and adjustments ^c	(28)	40	(1,974)	(271)	29	(2,204)
Transfer to assets held for sale ^d	–	–	–	(50)	(4)	(54)
Exchange differences	(1)	–	1	–	–	–
At 31 March 2022	1,022	31,276	24,439	1,444	1,446	59,627
Accumulated depreciation						
At 1 April 2020	610	14,867	22,213	1,350	–	39,040
Charge for the year	41	1,232	1,050	137	–	2,460
Transfers	(1)	–	2	(1)	–	–
Disposals and adjustments ^c	(20)	(23)	(2,186)	(332)	–	(2,561)
Transfer to assets held for sale ^d	–	–	–	–	–	–
Exchange differences	(18)	–	(133)	(17)	–	(168)
At 31 March 2021	612	16,076	20,946	1,137	–	38,771
Charge for the year ^e	37	1,372	1,092	168	–	2,669
Transfers	–	–	(1)	1	–	–
Disposals and adjustments ^c	(28)	28	(1,985)	(240)	–	(2,225)
Transfer to assets held for sale ^d	–	–	–	(41)	–	(41)
Exchange differences	–	–	(2)	–	–	(2)
At 31 March 2022	621	17,476	20,050	1,025	–	39,172
Carrying amount						
At 31 March 2021	334	13,032	4,542	383	990	19,281
Engineering stores	–	–	–	–	116	116
Total at 31 March 2021	334	13,032	4,542	383	1,106	19,397
At 31 March 2022	401	13,800	4,389	419	1,446	20,455
Engineering stores	–	–	–	–	144	144
Total at 31 March 2022	401	13,800	4,389	419	1,590	20,599

a Other mainly comprises motor vehicles, computers and fixtures and fittings.

b Net of government grants of £78m (FY21: £21m).

c Fully depreciated assets in the group's fixed asset registers were reviewed during the year, as part of the group's annual asset verification exercise, and certain assets that were no longer in use have been written off, reducing cost and accumulated depreciation by £2.0bn (FY21: £2.3bn). Disposals and adjustments include adjustments resulting from changes in assumptions used in calculating lease-end obligations where the corresponding asset is capitalised.

d Transfers to assets held for sale during the year relate to our BT Sport operations, see note 23.

e Depreciation charge for FY22 includes impairment charges of £11m.

14. Property, plant and equipment continued

Included within the above disclosure are assets used in arrangements which represent core business activities for the group and which meet the definition of operating leases:

- £13,800m (FY21: £13,032m) of the carrying amount of the network infrastructure asset class represents Openreach's network infrastructure. The majority of the associated assets are used to deliver fixed-line telecommunications services that have been assessed as containing operating leases, to both internal and external communications providers. Network infrastructure held by Openreach is presented separately in the table above however it is not practicable to separate out infrastructure not used in operating lease arrangements.
- Other assets includes devices with a carrying amount of £169m (FY21: £128m) that are made available to retail customers under arrangements that contain operating leases. These are not presented separately in the table above as they are not material relative to the group's overall asset base.

The carrying amount of land and buildings, including leasehold improvements, comprised:

At 31 March	2022 £m	2021 £m
Freehold	92	123
Leasehold	309	211
Total land and buildings	401	334

Network infrastructure

Some of our network assets are jointly controlled by EE Limited with Hutchison 3G UK Limited. These relate to shared 3G network and certain elements of network for 4G rural sites. The net book value of the group's share of assets controlled by its joint operation MBNL is £562m (FY21: £625m) and is recorded within network infrastructure. Included within this is £73m (FY21: £95m), being the group's share of assets owned by its joint operation MBNL.

Within network infrastructure are assets with a net book value of £10.3bn (FY21: £9.8bn) which have useful economic lives of more than 18 years. The prior year comparative has been restated from £10.3bn to exclude intangible licences associated with our network infrastructure.

15. Leases

Significant accounting policies that apply to leases

Identifying whether a lease exists

At inception of a contract, we determine whether the contract is, or contains a lease. A lease exists if the contract conveys the right to control the use of an identified asset, for a period of time, in exchange for consideration. In making this assessment, we consider whether:

- The contract involves the use of an identified asset, either explicitly or implicitly. The asset must be physically distinct or represent substantially all the capacity of a physically distinct asset. Assets that a supplier has a substantive right to substitute are not considered distinct.
- The lessee (either the group, or the group's customers) has the right to obtain substantially all the economic benefits from the use of the asset throughout the period of use; and
- The lessee has the right to direct the use of the asset, in other words, has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

Where practicable, and by class of underlying asset, we have elected to account for leases containing a lease component and one or more non-lease components as a single lease component. Where this election has been taken, it has been applied to the entire asset.

Lessee accounting

We recognise a lease liability and right-of-use asset at the commencement of a lease.

Lease liabilities are initially measured at the present value of lease payments that are due over the lease term, discounted using the group's incremental borrowing rate.

The lease term is the non-cancellable period of the lease adjusted for the impact of any extension options that we are reasonably certain the lessee will exercise, or termination options that we are reasonably certain the lessee will not exercise.

The incremental borrowing rate is the rate that we would have to pay for a loan of a similar term, and with similar security, to obtain an asset of similar value.

Notes to the consolidated financial statements continued

15. Leases continued

Lease payments include:

- fixed payments
- variable lease payments that depend on an index or rate
- amounts expected to be paid under residual value guarantees
- the exercise price of any purchase options that we are reasonably certain to exercise
- payments due over optional renewal periods where we are reasonably certain to renew
- penalties for early termination of the lease where we are reasonably certain to terminate early

Lease liabilities are subsequently measured at amortised cost using the effective interest method. They are remeasured if there is a change in future lease payments, including changes in the index or rate used to determine those payments, or the amount we expect to be payable under a residual value guarantee.

We also remeasure lease liabilities where the lease term changes. This occurs when the non-cancellable period of the lease changes, or on occurrence of a significant event or change in circumstances within the control of the lessee and which changes our initial assessment in regard to whether the lessee is reasonably certain to exercise extension options or not to exercise termination options. Where the lease term changes we remeasure the lease liability using the group's incremental borrowing rate at the date of reassessment. Where a significant event or change in circumstances does not occur, the lease term remains unchanged and the carrying amounts of the lease liability and associated right-of-use asset will decline over time.

Right-of-use assets are initially measured at the initial amount of the corresponding lease liabilities, adjusted for any prepaid lease payments, plus any initial direct costs incurred and an estimate of any decommissioning costs that have been recognised as provisions, less any lease incentives received. They are subsequently depreciated using the straight-line method to the earlier of the end of the useful life of the asset or the end of the lease term. Right-of-use assets are tested for impairment following the policy set out in note 14 and are adjusted for any remeasurement of lease liabilities.

We have elected not to recognise lease liabilities and right-of-use assets for short-term leases that have a lease term of 12 months or less, and leases of low-value assets with a purchase price under £5,000. We recognise lease payments associated with these items as an expense on a straight-line basis over the lease term.

Any variable lease payments that do not depend on an index or rate, such as usage-based payments, are recognised as an expense in the period to which the variability relates.

Significant judgements made in accounting for leases

The lease term is a key determinant of the size of the lease liability and right-of-use asset recognised where the group acts as lessee; and the deferral period for any upfront connection charges where the group acts as lessor. Determining the lease term requires judgement to evaluate whether we are reasonably certain the lessee will exercise extension options or will not exercise termination options. Key facts and circumstances that create an incentive to exercise those options are considered, these include:

- Our anticipated operational, retail and office property requirements in the mid and long-term.
- The availability of suitable alternative sites.
- Costs or penalties associated with exiting lease arrangements relative to the benefits to be gained, including costs of removing leasehold improvements or relocating, and indirect costs such as disruption to business.
- Significant investments in leased sites, in particular those with useful lives beyond the lease term.
- Costs associated with extending lease arrangements including rent increases during secondary lease periods.

Our definition of 'reasonable certainty', and therefore the lease term, will often align with the judgements made in our medium-term plan, in particular for leases of non-specialised property and equipment on rolling (or 'evergreen') arrangements that continue until terminated and which can be exited without significant penalty.

Following initial determination of the lease term, we exercise judgement in evaluating whether events or changes in circumstances are sufficiently significant to change the initial assessment of whether we are reasonably certain the lessee will exercise extension options or will not exercise termination options; and in the subsequent reassessment of the lease term.

Key judgements exercised in setting the lease term

The quantum of the lease liability and right-of-use asset currently recognised on our balance sheet is most significantly affected by the judgement exercised in setting the lease term for the arrangement under which the bulk of our operational UK property estate is held. Setting the lease term for our leased cell sites has also involved the use of judgement albeit to a lesser degree.

15. Leases continued

UK operational property portfolio

Substantially all of our leased property estate is held under an arrangement which can be terminated in 2031, at which point we may either vacate some or all properties; or purchase the entire estate. If neither option is taken the lease continues to the next unilaterally available break point in 2041. The lease liability recognised for the arrangement reflects a lease end date of 2031. On initial recognition we concluded that, although the majority of these properties are expected to be needed on a long-term basis, we couldn't be reasonably certain that we wouldn't exercise the termination option or that we would exercise the purchase option. In coming to this conclusion, we had due regard to material sub-lease arrangements relating to the estate.

As time progresses our assessment may change; if this happens, we will remeasure the lease liability and right-of-use asset to reflect either the rentals due for any properties we will continue to occupy, or the cost of purchasing the estate.

On remeasurement there would be an adjustment to both the lease liability and right-of-use asset, with no overall impact on net assets.

- Exercising the purchase option would lead to an estimated increase in the lease liability and right-of-use asset of between £3bn and £5bn
- Continuing to lease the estate beyond 2031 until the next available break in 2041 would lead to an estimated increase in the lease liability and right-of-use asset of between £1bn and £2bn

Our assessment will be directly linked to future strategic decisions, which will be resolved at some time prior to 2031, around the development of the fixed network and the associated rationalisation of our exchange estate. The breadth of the ranges reflects the significant uncertainty around key variables used to determine cash outflows, especially future inflation and which properties the group will be able to exit prior to or in 2031.

Estimates are based on discounted cash outflows and do not reflect the likely and significant impact of cash inflows generated from the disposal, repurposing or subleasing of properties retained post-2031.

We are permitted to hand a limited number of properties back to the lessor prior to 2031. On initial adoption of IFRS 16 we were not reasonably certain which properties would be handed back and as such the lease term did not reflect the exercise of these options. Subsequently we exercise judgement in identifying significant events that trigger reassessment of our initial conclusion. We exercise similar judgement in identifying events triggering reassessment of whether we are reasonably certain we will not exercise termination options associated with other leased properties.

In doing so we consider decisions associated with our ongoing workplace rationalisation programme, in particular decisions to exit a particular location or lease an alternative property. Generally we remain reasonably certain that we will not exercise a termination option until implementation of the associated business plan has progressed to a stage that we are committed to exiting the property. At that point we reassess the lease term by reference to the time we expect to remain in occupation of the property and any notice period associated with exercise of the option.

Cell sites

Most of the liability recognised in respect of leased cell sites relates to multi-site arrangements with commercial providers. The fixed-term nature of these arrangements means it has not been necessary to exercise significant judgement when determining the lease term. Where the arrangements offer extension options we have been required to conclude whether the options are reasonably certain to be exercised. Although the balance sheet could be materially affected by the conclusion reached in regard to these options, we have not been required to exercise a significant degree of judgement in arriving at the lease term having regard to the period of time covered by the options, the difficulty in predicting the group's long-term network requirements, and the relatively high threshold that 'reasonably certain' represents.

A smaller proportion of the cell site liability relates to arrangements with individual landlords which are either rolling or can be exited with notice. When setting the initial lease term for these arrangements we exercised significant judgement in establishing the period that we are reasonably certain to require use of the site. We broadly aligned lease terms with our medium-term planning horizon after assessing the relative strengths of the following factors:

- Long-term economic incentives to remain on sites including existing capital improvements;
- A need to maintain flexibility in our ability to develop and manage our network infrastructure to react quickly to technological developments and evolving capacity requirements; and
- Incentives to renegotiate arrangements in the medium term to gain more security over sites to support future capital investment.

Although significant judgement has been exercised in determining the lease term, reaching an alternative conclusion would not have a material impact on the balance sheet having regard to the most feasible alternative lease terms.

Subsequently, we consider key events that trigger reassessment of lease terms to be developments which resolve uncertainty around our economic incentive to remain on individual sites in the long term. These are primarily lease renegotiations and significant capital investments, for example that associated with our 5G rollout and other capital refresh programmes.

Notes to the consolidated financial statements continued

15. Leases continued

Right-of-use assets

Most of our right-of-use assets are associated with our leased property portfolio, specifically our office, retail and exchange estate. We also lease a significant proportion of our network infrastructure, including mobile cell and switch sites.

	Land and buildings £m	Network infrastructure £m	Motor vehicles £m	Other £m	Total
At 1 April 2020	4,829	179	377	6	5,391
Additions ^a	361	6	116	11	494
Depreciation charge for the year	(546)	(30)	(110)	(4)	(690)
Other movements ^{b,c}	(312)	(10)	(8)	(2)	(332)
At 31 March 2021	4,332	145	375	11	4,863
Additions ^a	249	13	110	1	373
Depreciation charge for the year ^d	(532)	(37)	(115)	(4)	(688)
Transfer to assets held for sale ^e	(2)	–	–	–	(2)
Other movements ^b	(106)	(11)	(1)	1	(117)
At 31 March 2022	3,941	110	369	9	4,429

a Additions comprise increases to right-of-use assets as a result of entering into new leases, and upwards remeasurement of existing leases arising from lease extensions or reassessments and increases to lease payments.

b Other movements primarily relate to terminated leases and downwards remeasurements of right-of-use assets arising from reductions or reassessments of lease terms and decreases in lease payments.

c Other movements in FY21 include derecognition of right-of-use assets with a carrying amount of £208m associated with a finance sub-lease arrangement, see note 5.

d Depreciation charge for FY22 includes impairment charges of £12m.

e Assets transferred to held for sale during the year relate to our BT Sport operations, see note 23.

Lease liabilities

Lease liabilities recognised are as follows:

Year ended 31 March	2022 £m	2021 £m
Current	795	730
Non-current	4,965	5,422
	5,760	6,152

The following amounts relating to the group's obligations under lease arrangements were recognised in the income statement in the year:

- Interest expense of £133m (FY21: £142m) accrued on lease liabilities.
- Variable lease payments of £24m (FY21: £27m) which are not dependent on an index or rate and which have not been included in the measurement of lease liabilities.

Expenses relating to leases of low-value assets and short-term leases for which no right-of-use asset or lease liability has been recognised were not material.

The total cash outflow for leases in the year was £792m (FY21: £924m). Our cash flow statement and normalised free cash flow reconciliation present £659m (FY21: £782m) of the cash outflow as relating to the principal element of lease liability payments, with the remaining balance of £133m (FY21: £142m) presented within interest paid.

Note 28 presents a maturity analysis of the payments due over the remaining lease term for lease liabilities currently recognised on the balance sheet. This analysis only includes payments to be made over the reasonably certain lease term. Cash outflows are likely to exceed these amounts as payments will be made on optional periods that we do not currently consider to be reasonably certain, and in respect of leases entered into in future periods.

15. Leases continued

Other information relating to leases

Our material lease arrangements do not have indexation clauses linked to Interbank Offered Rates (IBORs). As a result we do not consider that the upcoming Interest Rate Benchmark Reform will have a material impact on the lease liabilities or right-of-use assets recognised at 31 March 2022.

At 31 March 2022 the group was committed to future minimum lease payments of £39m in respect of leases which have not yet commenced and for which no lease liability has been recognised (31 March 2021: £4m).

The following table analyses cash payments to be received across the remaining term of operating lease arrangements where BT is lessor:

	To be recognised as revenue (note 5) £m	To be recognised as other operating income (note 6) £m	Total £m
At 31 March 2022			
Less than one year	446	20	466
One to two years	148	13	161
Two to three years	40	12	52
Three to four years	3	12	15
Four to five years	3	12	15
More than five years	–	24	24
Total undiscounted lease payments	640	93	733
At 31 March 2021 (re-presented^a)			
Less than one year	336	27	363
One to two years	144	13	157
Two to three years	37	10	47
Three to four years	1	10	11
Four to five years	1	10	11
More than five years	–	30	30
Total undiscounted lease payments	519	100	619

a From FY22 this disclosure includes only outstanding and future cash payments to be received across the remaining term of operating lease arrangements, and excludes future revenue to be recognised on deferred income balances. This is considered to better align with the purpose of the disclosure and provides a clearer view of the group's liquidity risk disclosure. FY21 comparatives have been re-presented to exclude a total of £163m deferred connection fees on Openreach's 'last mile' products.

16. Programme rights

Significant accounting policies that apply to programme rights

Programme rights are recognised on the balance sheet from the point at which the legally enforceable licence period begins. They are accounted for as inventory and held at the lower of cost and net realisable value. They are initially recognised at cost and are consumed from the point at which they are available for use, on a straight line basis over the programming period, or the remaining licence term, as appropriate, which is generally 12 months.

Additions reflect TV programme rights for which the legally enforceable licence period has started during the year. Rights for which the licence period has not started are disclosed as contractual commitments in note 31. Payments made to receive commissioned or acquired programming in advance of the legal right to broadcast the programmes are classified as prepayments (see note 17).

Notes to the consolidated financial statements continued

16. Programme rights continued

	Total £m
At 1 April 2020	310
Additions	903
Credits received on prepaid programme rights ^a	(99)
Release	(786)
At 1 April 2021	328
Additions	861
Release	(879)
At 31 March 2022	310

a Credits received in FY21 in respect of prepaid programme rights relating to sporting events postponed or cancelled as a result of the Covid-19 pandemic.

17. Trade and other receivables

Significant accounting policies that apply to trade and other receivables

We initially recognise trade and other receivables at fair value, which is usually the original invoiced amount. They are subsequently carried at amortised cost using the effective interest method. The carrying amount of these balances approximates to fair value due to the short maturity of amounts receivable.

We provide services to consumer and business customers, mainly on credit terms. We know that certain debts due to us will not be paid through the default of a small number of our customers. Because of this, we recognise an allowance for doubtful debts on initial recognition of receivables, which is deducted from the gross carrying amount of the receivable. The allowance is calculated by reference to credit losses expected to be incurred over the lifetime of the receivable. In estimating a loss allowance we consider historical experience and informed credit assessment alongside other factors such as the current state of the economy and particular industry issues. We consider reasonable and supportable information that is relevant and available without undue cost or effort.

Once recognised, trade receivables are continuously monitored and updated. Allowances are based on our historical loss experiences for the relevant aged category as well as forward-looking information and general economic conditions. Allowances are calculated by individual CFUs in order to reflect the specific nature of the customers relevant to that CFU.

Contingent assets such as any insurance recoveries, or prepaid programme rights which we expect to recoup, have not been recognised in the financial statements as these are only recognised within trade and other receivables when their receipt is virtually certain.

At 31 March	2022 £m	2021 £m
Current		
Trade receivables	1,339	1,209
Prepayments ^a	523	1,357
Accrued income	150	130
Deferred contract costs	336	348
Other receivables	276	213
	2,624	3,257
Non-current		
Other assets ^b	111	103
Deferred contract costs	226	211
	337	314

a Prepayments in FY21 included £702m relating to funds prepaid to Ofcom for the recent Spectrum auction.

b Other assets comprise prepayments and leasing debtors.

17. Trade and other receivables continued

Trade receivables are stated after deducting allowances for doubtful debts, as follows:

	2022 £m	2021 £m
At 1 April (restated^a)	378	423
Expense	35	95
Utilised	(189)	(131)
Exchange differences	(1)	(9)
At 31 March (restated^a)	223	378

a The opening bad debt allowance at 1 April 2020 has been restated to include £94m bad debt provision recognised by EE Limited at the time of acquisition by the group but excluded from this disclosure in error in FY16 with a follow-on impact on subsequent years' opening and closing balances. This affects the bad debt disclosure in isolation and the trade receivables balance presented in the FY16 financial statements was accurately stated net of the acquired £94m provision.

Included within the movements above are certain items which have been classified as a specific item (see note 9). In FY22, £19m of expected credit loss provisions recognised as a specific item were released (FY21: £7m release) reflecting lower than expected credit losses.

Note 28 provides further disclosure regarding the credit quality of our gross trade receivables. Trade receivables are due as follows:

	Not past due £m	Trade receivables specifically impaired net of provision £m	Past due and not specifically impaired				Total £m
			Between 0 and 3 months £m	Between 3 and 6 months £m	Between 6 and 12 months £m	Over 12 months £m	
At 31 March							
2022	938	3	246	48	47	57	1,339
2021	845	36	205	40	51	32	1,209

Gross trade receivables which have been specifically impaired amounted to £20m (FY21: £51m).

The expected credit loss allowance for trade receivables was determined as follows:

	Not past due £m	Trade receivables specifically impaired net of provision £m	Past due and not specifically impaired				Total £m
			Between 0 and 3 months £m	Between 3 and 6 months £m	Between 6 and 12 months £m	Over 12 months £m	
At 31 March							
2022							
Expected loss rate %	1%	84%	12%	24%	33%	69%	14%
Gross carrying amount	946	20	280	63	70	183	1,562
Loss allowance	(8)	(17)	(34)	(15)	(23)	(126)	(223)
Net carrying amount	938	3	246	48	47	57	1,339
2021							
Expected loss rate %	4%	29%	15%	38%	47%	87%	24%
Gross carrying amount	880	51	240	65	97	254	1,587
Loss allowance	(35)	(15)	(35)	(25)	(46)	(222)	(378)
Net carrying amount	845	36	205	40	51	32	1,209

Trade receivables not past due and accrued income are analysed below by CFU.

	Trade receivables not past due		Accrued income	
	2022 £m	2021 £m	2022 £m	2021 £m
At 31 March				
Consumer	324	319	76	50
Enterprise	168	144	–	–
Global	446	380	–	–
Openreach	–	–	71	78
Other	–	2	3	2
Total	938	845	150	130

Given the broad and varied nature of our customer base, the analysis of trade receivables not past due and accrued income by CFU is considered the most appropriate disclosure of credit concentrations.

Notes to the consolidated financial statements continued

17. Trade and other receivables continued

Deferred contract costs

Significant accounting policies that apply to deferred contract costs

We capitalise certain costs associated with the acquisition and fulfilment of contracts with customers and amortise them over the period that we transfer the associated services.

Connection costs are deferred as contract fulfilment costs because they allow satisfaction of the associated connection performance obligation and are considered recoverable. Sales commissions and other third party contract acquisition costs are capitalised as costs to acquire a contract unless the associated contract term is less than 12 months, in which case they are expensed as incurred. Capitalised costs are amortised over the minimum contract term. A portfolio approach is used to determine contract term.

Where the initial set-up, transition and transformation phases of long-term contractual arrangements represent distinct performance obligations, costs in delivering these services are expensed as incurred. Where these services are not distinct performance obligations, we capitalise eligible costs as a cost of fulfilling the related service. Capitalised costs are amortised on a straight line basis over the remaining contract term, unless the pattern of service delivery indicates a more appropriate profile. To be eligible for capitalisation, costs must be directly attributable to specific contracts, relate to future activity, and generate future economic benefits. Capitalised costs are regularly assessed for recoverability.

The following table shows the movement on deferred costs:

	Deferred connection costs £m	Deferred contract acquisition costs – commissions £m	Deferred contract acquisition costs – dealer incentives £m	Transition and transformation £m	Total £m
At 1 April 2020	32	94	449	106	681
Additions	10	76	301	26	413
Amortisation	(9)	(68)	(391)	(19)	(487)
Impairment	(1)	(4)	(11)	(15)	(31)
Other	–	(4)	–	(13)	(17)
At 31 March 2021	32	94	348	85	559
Additions	17	98	291	50	456
Amortisation	(14)	(78)	(308)	(33)	(433)
Impairment	(1)	(5)	(10)	(11)	(27)
Other	(10)	15	3	(1)	7
At 31 March 2022	24	124	324	90	562

18. Trade and other payables

Significant accounting policies that apply to trade and other payables

We initially recognise trade and other payables at fair value, which is usually the original invoiced amount. We subsequently carry them at amortised cost using the effective interest method.

	2022 £m	2021 £m
At 31 March		
Current		
Trade payables	4,143	4,024
Other taxation and social security	573	491
Other payables	532	495
Accrued expenses	549	634
Deferred income ^a	345	336
	6,142	5,980

^a Deferred income includes £96m (FY21: £96m) current and £392m (FY21: £472m) non-current liabilities relating to Building Digital UK, for which grants received by the group may be subject to re-investment or repayment depending on the level of take-up.

18. Trade and other payables continued

At 31 March	2022 £m	2021 £m
Non-current		
Other payables	30	12
Deferred income ^a	594	670
	624	682

a Deferred income includes £96m (FY21: £96m) current and £392m (FY21: £472m) non-current liabilities relating to Building Digital UK, for which grants received by the group may be subject to re-investment or repayment depending on the level of take-up.

Current trade and other payables at 31 March 2022 include £89m of trade payables that have been factored by suppliers in a supply chain financing programme (31 March 2021: £45m). These programmes are used with a limited number of suppliers with short payment terms to extend them to a more typical payment term.

19. Provisions & contingent liabilities

Our provisions principally relate to obligations arising from property rationalisation programmes, restructuring programmes, asset retirement obligations, network assets, insurance claims, litigation and regulatory risks. Contingent liabilities primarily arise from litigation and regulatory matters that are not sufficiently certain to meet the criteria for recognition as provisions.



Significant accounting policies that apply to provisions & contingent liabilities

We recognise provisions when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Where these criteria are not met we disclose a contingent liability if the group has a possible obligation, or has a present obligation with an outflow that is not probable or which cannot be reliably estimated.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.



Critical & key accounting estimates and significant judgements made in accounting for provisions & contingent liabilities

We exercise judgement in determining the quantum of all provisions to be recognised. Our assessment includes consideration of whether we have a present obligation, whether payment is probable and if so whether the amount can be estimated reliably.

As part of this assessment, we also assess the likelihood of contingent liabilities occurring in the future. Contingent liabilities are not recognised as liabilities on our balance sheet. By their nature, contingencies will be resolved only when one or more uncertain future events occur or fail to occur. We assess the likelihood that a potential claim or liability will arise and also quantify the possible range of financial outcomes where this can be reasonably determined.

In estimating contingent liabilities we make key judgements in relation to applicable law and any historical and pending court rulings, and the likelihood, timing and cost of resolution.

Critical accounting estimates applied in accounting for contingent liabilities

Establishing contingent liabilities associated with litigation brought against the group may involve the use of critical estimates and assumptions, in particular around the ability to form a reliable estimate of any probable outflow. We provide further information in relation to specific matters in the 'contingent liabilities' section below.

Key accounting estimates applied in accounting for provisions and contingent liabilities

Other provisions may involve the use of key (but not critical) estimates as explained below.

Property provisions relate to obligations arising in relation to our property portfolio, in particular costs to restore leased properties on vacation where this is required under the lease agreement. In measuring property provisions, we have made estimates of the costs association with the restoration of properties by reference to any relevant guidance such as rate cards. Cash outflows occur as and when properties are vacated and the obligations are settled.

Asset retirement obligations (AROs) relate to obligations to dismantle equipment and restore network sites on vacation of the site. The provision represents the group's best estimate of the costs to dismantle equipment and restore the sites. Obligations are settled as and when sites are vacated and the timing is largely influenced by the group's network strategy.

Network share provisions represent our future operational costs and vacant site rentals arising from obligations relating to network share agreements. Costs are expected to be incurred over a period of up to 20 years.

Notes to the consolidated financial statements continued

19. Provisions & contingent liabilities continued

Our regulatory provision represents our best estimate of the cost to settle our present obligation in relation to historical regulatory matters. The charge/credit for the year represents the outcome of management's re-assessment of the estimates and regulatory risks across a range of issues, including price and service issues. The prices at which certain services are charged are regulated and may be subject to retrospective adjustment by regulators. When estimating the likely value of regulatory risk we make key judgements, including in regard to interpreting Ofcom regulations and past and current claims. The precise outcome of each matter depends on whether it becomes an active issue, and the extent to which negotiation or regulatory and compliance decisions will result in financial settlement. The ultimate liability may vary from the amounts provided and will be dependent upon the eventual outcome of any settlement.

Litigation provisions represent the best estimate to settle present obligations recognised in respect of claims brought against the group. The estimate reflects the specific facts and circumstances of each individual matter and any relevant external advice received. Provisions recognised are inherently judgemental and could change over time as matters progress.

Our insurance provision is based on our gross exposure to latent disease claims from former colleagues. A third party reviews our exposure and provides an estimate of the most likely outcome.

Other provisions do not include any individually material provisions.

For all risks, the ultimate liability may vary materially from the amounts provided and will be dependent upon the eventual outcome of any settlement.

	Property ^a £m	Network ARO ^a £m	Network share £m	Regulatory £m	Litigation £m	Insurance £m	Other £m	Total £m
At 1 April 2020	144	179	12	79	88	89	128	719
Additions	9	–	1	32	17	7	50	116
Unwind of discount	1	–	–	–	–	–	–	1
Utilised	(7)	(4)	(1)	(15)	–	(5)	(7)	(39)
Released	(9)	(17)	–	–	–	–	(56)	(82)
Transfers	–	–	–	–	4	–	(4)	–
At 31 March 2021	138	158	12	96	109	91	111	715
Additions	17	25	7	14	7	6	15	91
Unwind of discount	–	1	–	–	–	–	–	1
Utilised	(9)	(3)	(6)	(26)	–	(5)	(5)	(54)
Released	(2)	–	(8)	(18)	(31)	–	(30)	(89)
Transfers ^b	(2)	–	–	(1)	–	–	–	(3)
31 March 2022	142	181	5	65	85	92	91	661

a Timing of expected cash flows associated with property and network ARO provisions varies depending on the exit dates of individual properties and sites. During FY22 there has been no material change in the judgements or assumptions applied in the measurement of our existing obligations.

b Transfers in FY22 are due to reclassification to other payables during the period.

	2022 £m	2021 £m
At 31 March		
Analysed as:		
Current	222	288
Non-current	439	427
	661	715

Included within 'Other' provisions are contract loss provisions of £1m (FY21: £2m) relating to the anticipated total losses in respect of certain contracts.

Contingent liabilities

In the ordinary course of business, we are periodically notified of actual or threatened litigation, and regulatory and compliance matters and investigations. We provide for anticipated costs where an outflow of resources is considered probable and a reasonable estimate can be made of the likely outcome. Provisions are reflected in the table above.

Where an outflow is not probable but is possible a contingent liability exists. Save as disclosed below, the group does not currently believe that there are any legal proceedings, or government or regulatory investigations that may have a material adverse impact on the operations or financial condition of the group. In respect of each of the claims below, the nature and progression of such proceedings and investigations can make it difficult to predict the impact they will have on the group. There are many reasons why we cannot make these assessments with certainty, including, among others, that they are in early stages, no damages or remedies have been specified, and/or the often slow pace of litigation.

19. Provisions & contingent liabilities continued

Class action claim

In January 2021, law firm Mishcon de Reya applied to the Competition Appeal Tribunal to bring a proposed class action claim for damages they estimated at £608m (inclusive of compound interest) or £589m (inclusive of simple interest) on behalf of our landline customers alleging anti-competitive behaviour through excessive pricing by BT to customers with certain residential landline services. Ofcom considered this topic more than four years ago. At that time, Ofcom's final statement made no finding of excessive pricing or breach of competition law more generally. The claim seeks to hold against us the fact that we implemented a voluntary commitment to reduce prices for customers that have a BT landline only and not to increase those prices beyond inflation (CPI). At the reporting date we are not aware of any evidence to indicate that a present obligation exists such that any amount should be provided for. In September 2021 the Competition Appeal Tribunal certified the claim to proceed to a substantive trial on an opt-out basis (class members are automatically included in the claim unless they choose to opt-out). We appealed the opt-out nature of that decision and in May 2022 the Court of Appeal determined that the claim should proceed on an opt-out basis. The next procedural hearing is listed on 13 May 2022. BT intends to defend itself vigorously.

Italian business

Milan Public Prosecutor prosecutions: In February 2019 the Milan Public Prosecutor served BT Italia S.P.A. (BT Italia) with a notice (which named BT Italia, as well as various individuals) to record the Prosecutor's view that there is a basis for proceeding with its case against BT Italia for certain potential offences, namely the charge of having adopted, from 2011 to 2016, an inadequate management and control organisation model for the purposes of Articles 5 and 25 of Legislative Decree 231/2001.

BT Italia disputes this and maintains in a defence brief filed in April 2019 that: (a) BT Italia did not gain any interest or benefit from the conduct in question; and (b) in any event, it had a sufficient organisational, management and audit model that was circumvented/overridden by individuals acting in their own self-interest. However, following a series of committal hearings in Autumn 2020, on 10 November 2020, the Italian court agreed (as is the normal process unless there are limitation or other fundamental issues with the claim) that BT Italia, and all but one of the individuals, should be committed to a full trial.

The trial commenced on 26 January 2021 and is expected to last at least two years. On 23 April 2021, the Italian court allowed some parties to be joined to the criminal proceedings as civil parties ('parte civile') – a procedural feature of the Italian criminal law system. These claims are directed at certain individual defendants (which include former BT/BT Italia employees). Those parties have now applied to join BT Italia as a respondent to their civil claims ('responsabile civile') on the basis that it is vicariously responsible for the individuals' wrongdoing. If successful, the quantum of those claims is not anticipated to be material.

Phones 4U

Since 2015 the administrators of Phones 4U Limited have made allegations that EE and other mobile network operators colluded to procure Phones 4U's insolvency. Legal proceedings for an unquantified amount were issued in December 2018 by the administrators and in April 2019 we submitted our defence to this claim. The first trial, on the question of breach, is due to start on 16 May 2022, and the second trial, on quantum (if necessary), would be listed after that. We continue to dispute these allegations vigorously.

20. Retirement benefit plans

Background to BT's pension plans

The group has both defined benefit and defined contribution retirement benefit plans. The group's main plans are in the UK and the largest by membership is the BT Pension Scheme (BTPS) which is a defined benefit plan that was closed to future benefit accrual in 2018 for over 99% of the active membership at the time. The BT Hybrid Scheme (BTHS), which combines elements of both defined benefit and defined contribution plans, was set up for non-management employees impacted by the closure of the BTPS and was closed to new entrants in 2019.

New entrants to BT in the UK are eligible to join a defined contribution plan, currently the BT Retirement Saving Scheme (BTRSS), a contract-based arrangement operated by Standard Life.

EE Limited operates the EE Pension Scheme (EEPS), which has a defined benefit section that was closed to future benefit accrual in 2014 and a defined contribution section.

The group also has retirement arrangements around the world in line with local markets and culture.

	What are they?	Future implications for BT?
Defined contribution plans	Benefits in a defined contribution plan are linked to the value of each member's fund, which is based on: - contributions paid - the performance of each individual's chosen investments.	The group has no exposure to investment and other experience risks.
Defined benefit plans	Benefits in a defined benefit plan are determined by the plan rules and are: - dependent on factors such as age, years of service and pensionable pay - not dependent on actual contributions made by the company or members.	The group is exposed to investment and other experience risks and may need to make additional contributions where it is estimated that the benefits will not be met from regular contributions, expected investment income and assets held.

Notes to the consolidated financial statements continued

20. Retirement benefit plans continued

Significant accounting policies that apply to retirement benefit plans

Defined benefit plans

The net defined benefit liability, or deficit, in respect of the defined benefit plans is the present value of all expected future benefit cash flows to be paid by each plan, calculated using the projected unit credit method by professionally qualified actuaries (also known as the Defined Benefit Obligation (DBO) or liabilities) less the fair value of the plan assets.

The income statement expense is allocated between an operating charge and net finance expense.

- The operating charge reflects the increase in the liability resulting from the pension benefit earned by active employees in the current period, the cost of administering the plans and any past service costs/credits such as those arising from curtailments or settlements.
- The net finance expense reflects the interest on the net defined benefit liability recognised in the group balance sheet, based on the discount rate at the start of the year.

Remeasurements of the net defined benefit liability are recognised in full in the group statement of comprehensive income in the year in which they arise. These comprise:

- The impact on the liabilities of changes in financial assumptions, which are based on market conditions at the balance sheet date, and demographic assumptions, such as life expectancy, compared with those adopted at the start of the year;
- The impact on the liabilities of actual experience over the year being different compared to the assumptions made at the start of the year, for example, from members choosing different benefit options at retirement or actual pension increases being different to the pension increase assumption; and
- The return on plan assets being above or below the amount included in the net finance expense.

Defined contribution plans

The operating charge for the defined contribution pension plans represents the contributions payable for the year.

Amounts in the financial statements

Group income statement

The expense arising from all group retirement benefit arrangements recognised in the group income statement is shown below.

Year ended 31 March	2022 £m	2021 £m
Recognised in the income statement before specific items (note 6)		
– Service cost (including administration expenses and PPF levy):		
– defined benefit plans	67	63
– defined contribution plans	525	527
– Past service cost	(1)	1
Subtotal	591	591
Recognised in the income statement as specific items (note 9)		
– Costs to close BTPS and provide transition payments ^a for affected employees	14	21
– Interest on pensions deficit	93	18
Subtotal	107	39
Total recognised in the income statement	698	630

a All employees impacted by the closure of the BTPS were eligible for transition payments from the date of closure into their BTRSS pot for a period linked to the employee's age.

Group balance sheet

The net defined benefit liability in respect of defined benefit plans reported in the group balance sheet are set out below.

	2022			2021		
At 31 March	Assets £m	Liabilities £m	Deficit ^a £m	Assets £m	Liabilities £m	Deficit ^a £m
BTPS	53,465	(54,309)	(844)	53,172	(57,737)	(4,565)
EEPS	1,004	(1,017)	(13)	934	(1,127)	(193)
Other plans ^b	468	(754)	(286)	506	(844)	(338)
Total (gross of tax)	54,937	(56,080)	(1,143)	54,612	(59,708)	(5,096)
Deferred tax asset			190			925
Total (net of tax)			(953)			(4,171)

a BT is not required to limit any pension surplus or recognise additional pensions liabilities in individual plans as economic benefits are available in the form of either future refunds or reductions to future contributions. In particular, a refund of surplus is available following the gradual settlement of the liabilities over time until there are no members remaining in the BTPS or EEPS.

b Included in the liabilities of other plans is £115m (FY21: £146m) related to unfunded pension arrangements.

20. Retirement benefit plans continued

Movements in defined benefit plan assets and liabilities

The table below shows the movements in the defined benefit plan assets and liabilities and shows where they are reflected in the financial statements.

	Assets £m	Liabilities £m	Deficit £m
At 31 March 2020	53,471	(54,611)	(1,140)
Service cost (including administration expenses and PPF levy)	(44)	(19)	(63)
Past service cost	–	(1)	(1)
Interest on pension deficit	1,281	(1,299)	(18)
Included in the group income statement			(82)
Return on plan assets above the amount included in the group income statement	1,766	–	1,766
Actuarial (loss) arising from changes in financial assumptions	–	(8,504)	(8,504)
Actuarial gain arising from changes in demographic assumptions	–	1,746	1,746
Actuarial gain arising from experience adjustments	–	136	136
Included in the group statement of comprehensive income			(4,856)
Regular contributions by employer	17	–	17
Deficit contributions by employer	955	–	955
Included in the group cash flow statement			972
Contributions by employees	1	(1)	–
Benefits paid	(2,822)	2,822	–
Other (e.g. foreign exchange)	(13)	23	10
Other movements			10
At 31 March 2021	54,612	(59,708)	(5,096)
Service cost (including administration expenses and PPF levy)	(47)	(20)	(67)
Past service credit	–	1	1
Interest on pension deficit	1,095	(1,188)	(93)
Included in the group income statement			(159)
Return on plan assets above the amount included in the group income statement	780	–	780
Actuarial gain arising from changes in financial assumptions	–	2,932	2,932
Actuarial gain arising from changes in demographic assumptions	–	804	804
Actuarial (loss) arising from experience adjustments ^a	–	(1,651)	(1,651)
Included in the group statement of comprehensive income			2,865
Regular contributions by employer	114	–	114
Deficit contributions by employer	1,121	–	1,121
Included in the group cash flow statement			1,235
Contributions by employees	1	(1)	–
Benefits paid	(2,748)	2,748	–
Other (e.g. foreign exchange)	9	3	12
Other movements			12
At 31 March 2022	54,937	(56,080)	(1,143)

^a Primarily reflects the impact on the liabilities of actual inflation being higher than assumed at the prior reporting date. There has been a broadly equivalent benefit to inflation-linked assets from higher inflation.

Overview and governance of the BTPS

What are the benefits under the BTPS?

Benefits earned for pensionable service prior to 1 April 2009 are based upon a member's final salary and a normal pensionable age of 60.

Between 1 April 2009 and 30 June 2018, Section B and C active members accrued benefits based upon a career average re-valued earnings (CARE) basis and a normal pensionable age of 65. On a CARE basis benefits are built up based upon earnings in each year and the benefit accrued for each year is increased by the lower of inflation or the individual's actual pay increase in each year to retirement.

For Section A members, benefits earned for pensionable service up to 30 June 2018 are all based upon a member's final salary and a normal pensionable age of 60.

Notes to the consolidated financial statements continued

20. Retirement benefit plans continued

Under the BTPS rules, increases for the majority of benefits are linked to either the Retail Price Index (RPI) or the Consumer Price Index (CPI) as summarised in the table below.

	Before retirement	After retirement
Sections A & B ^a	Preserved benefits increase before retirement based on CPI	Increases to benefits in payment are currently based on CPI
Section C		Increases to benefits in payment are currently based on RPI up to a maximum of 5%

^a Section A members have typically elected to take Section B benefits at retirement.

How is the BTPS governed and managed?

BT Pension Scheme Trustees Limited (the Trustee) has been appointed by BT as an independent trustee to administer and manage the BTPS on behalf of the members in accordance with the terms of the BTPS Trust Deed and Rules and relevant legislation (principally the Pensions Acts of 1993, 1995, 2004 and 2021).

Under the terms of the Trust Deed there are nine Trustee directors, all of whom are appointed by BT, as illustrated below. Trustee directors are usually appointed for a three-year term but are then eligible for re-appointment.



Chairman of the Trustee directors

Appointed by BT after consultation with, and with the agreement of, the relevant trade unions.



Member nominated Trustee directors

Appointed by BT based on nominations by trade unions.



Employer nominated Trustee directors

Appointed by BT. Two normally hold senior positions within the group and two normally hold (or have held) senior positions in commerce or industry.

BTPS IAS 19 assets



Critical accounting estimates and significant judgements made when valuing our pension assets

Under IAS 19, plan assets should be measured at fair value at the balance sheet date.

The pension assets include quoted and unquoted investments. A portion of unquoted investments are valued based on inputs that are not directly observable, which require more judgement. The assumptions used in valuing unquoted investments are affected by market conditions.

Around £5.6bn of these unquoted investments are formally valued periodically by the investment manager and the latest valuation precedes the balance sheet date. These valuations have been adjusted for cash movements between the previous valuation date and 31 March 2022. The valuation approach and inputs for these investments would only be approximately updated where there were indications of significant market movements, which was not the case at 31 March 2022 or in 2021. The BTPS exposure to Russian assets is less than 0.1% of the BTPS assets.

The asset-backed funding arrangement, issued to the BTPS in May 2021, which has a fair value of £1.4bn at 31 March 2022, is not recognised as a pension asset when measuring the group's IAS 19 net defined benefit liability as it is a non-transferable financial instrument issued by the reporting entity.

Valuation of main quoted investments

- Equities listed on recognised stock exchanges are valued at closing bid prices.
- Bonds that are regularly traded are valued using broker quotes.
- Exchange traded derivative contracts are valued based on closing bid prices.

20. Retirement benefit plans continued

Valuation of main unquoted investments

- Equities are valued using the International Private Equity and Venture Capital (IPEVC) guidelines where the most significant assumptions are the discount rate and earnings assumptions.
- Property investments are valued on the basis of open market value by an independent valuer using RICS guidelines. The significant assumptions used in the valuation are rental yields and occupancy rates.
- Bonds, including those issued by BT, that are not regularly traded are valued by an independent valuer using pricing models making assumptions for credit risk, market risk and market yield curves.
- Over the counter derivatives are valued by an independent valuer using cash flows discounted at market rates. The significant assumptions used in the valuation are the yield curves and cost of carry.
- Holdings in investment funds are typically valued at the Net Asset Value provided by the fund administrator or investment manager. The significant assumption used in the valuation is the Net Asset Value.
- Infrastructure investments are valued by an independent valuer using a model-based valuation such as a discounted cash flow approach, or at the price of recent market transactions if they represent fair value. Where a discounted cash flow model is used, the significant assumptions used in the valuation are the discount rate and the expected cash flows.
- The value of the longevity insurance contract held by the BTPS is measured by discounting the projected cash flows payable under the contract (projected by an actuary, consistent with the terms of the contract). The significant assumptions used to value the asset are the discount rate (including adjustments to the risk free rate) and the mortality assumptions.

How are the BTPS assets invested?

The Trustee regularly reviews the allocation of assets between different investment classes, taking into account current market conditions and trends. The allocations reflect the Trustee's views on the appropriate balance to be struck between seeking returns and incurring risk, and on the extent to which the assets should be allocated to match liabilities.

The table below shows the fair value of the BTPS assets analysed by asset category, subdivided by valuations based on a quoted market price in an active market, and those that are not (such as investment funds).

		2022 ^a			2021 ^a		
		Total assets £bn	of which quoted ^b £bn	Total %	Total assets £bn	of which quoted ^b £bn	Total %
At 31 March							
Growth							
Equities	UK	0.3	0.2	1	0.3	0.3	1
	Overseas developed	6.5	5.6	12	7.0	6.5	13
	Emerging markets	1.0	0.9	2	1.3	1.3	2
Private Equity		1.2	–	2	1.6	–	3
Property	UK	3.4	–	6	2.9	–	5
	Overseas	0.8	–	2	0.8	–	2
Other growth assets	Absolute Return ^c	1.0	–	2	1.1	–	2
	Non Core Credit ^d	4.7	1.4	9	4.3	1.4	8
	Mature Infrastructure	1.4	–	3	1.3	–	2
Liability matching							
Government bonds	UK	15.1	15.1	28	14.3	14.3	27
Investment grade credit	Global	13.9	11.7	26	14.1	11.5	27
Secure income assets ^e		2.6	–	5	2.1	–	4
Cash, derivatives and other							
Cash balances		2.9	–	5	1.4	–	3
Longevity insurance contract ^f		(1.0)	–	(2)	(0.8)	–	(2)
Other ^g		(0.3)	–	(1)	1.5	–	3
Total		53.5	34.9	100	53.2	35.3	100

a At 31 March 2022, the BTPS did not hold any equity issued by the group (FY21: nil). The BTPS held £1,930m (FY21: £2,216m) of bonds issued by the group.

b Assets with a quoted price in an active market.

c This allocation seeks to generate a positive return in all market conditions.

d This allocation includes a range of credit investments, including emerging market, sub-investment grade and unrated credit. The allocation seeks to exploit investment opportunities within credit markets using the expertise of a range of specialist investment managers.

e This allocation includes property, infrastructure and credit investments which provide a stable income to the BTPS.

f The Trustee has hedged some of BTPS's longevity risk through a longevity insurance contract which was entered into in 2014. The value reflects experience to date on the contract from higher than expected deaths and movements partly offset a corresponding reduction in BTPS's liabilities over the same period.

g Includes collateral posted in relation to derivatives held by the BTPS.

Notes to the consolidated financial statements continued

20. Retirement benefit plans continued

BTPS IAS 19 Liabilities

Critical accounting estimates and significant judgements made when valuing our pension liabilities

The measurement of the service cost and the liabilities involves judgement about uncertain events including the life expectancy of members, price inflation and the discount rate used to calculate the net present value of the future pension payments. We use estimates for all of these uncertain events. Our assumptions reflect historical experience, actuarial advice and our judgement regarding future expectations at the balance sheet date.

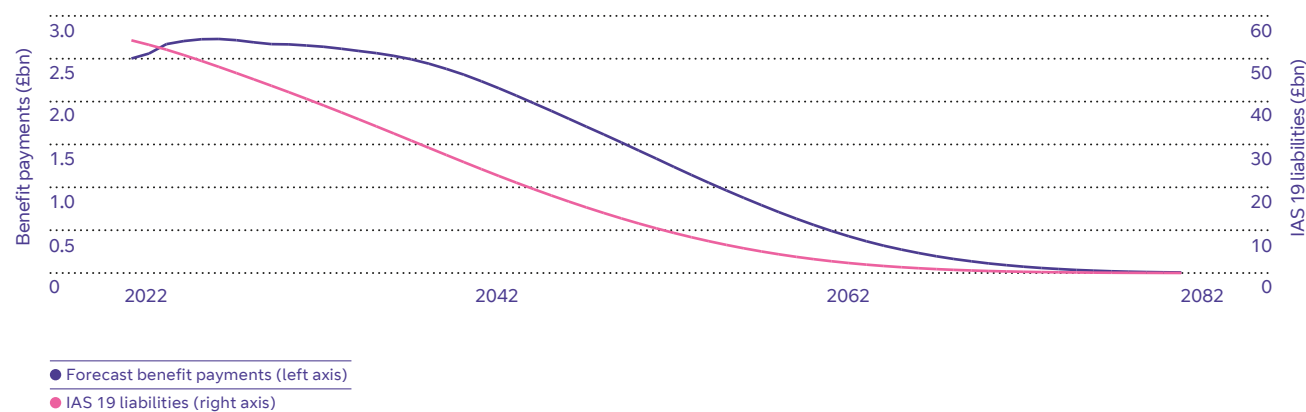
What are the forecast benefits payable from the BTPS?

There were 274,000 members in the BTPS at 30 June 2021, the date of the membership data used to value the IAS 19 liabilities. Members belong to one of three sections depending upon the date they first joined the BTPS, which impacts the benefits they are expected to receive.

Benefits to members from the BTPS are expected to be paid over more than 60 years. Projecting future expected benefit payments requires a number of assumptions, including future inflation, retirement ages, benefit options chosen and life expectancy and is therefore inherently uncertain. Actual benefit payments in a given year may be higher or lower, for example if members retire sooner or later than assumed, or take a greater or lesser cash lump sum at retirement than assumed. The liabilities are the present value of the future expected benefit payments.

The chart below illustrates the estimated benefits payable from the BTPS, and projected liabilities, forecast using the IAS 19 assumptions. Whilst benefit payments are expected to increase over the earlier years, the value of the liabilities is expected to reduce.

Forecast benefits payable by BTPS at 31 March 2022 (unaudited)



The estimated duration of the BTPS liabilities, which is an indicator of the weighted average term of the liabilities, is 14 years using the IAS 19 assumptions.

What is the breakdown of the membership and IAS 19 liabilities?

	Active members	Deferred members	Pensioners	Total
Sections A and B liabilities (£bn)	–	5.5	30.7	36.2
Section C liabilities (£bn)	–	12.4	5.7	18.1
Total IAS 19 liabilities (£bn)	–	17.9	36.4	54.3
Total number of members (000's)	–	67	207	274

What are the key assumptions and how have they been set?

The key financial assumptions used to measure the IAS 19 liabilities of the BTPS, where the nominal rates have been rounded to the nearest 0.05%, are shown below.

	Nominal rates (per year)		Real rates (per year) ^a	
	2022	2021	2022	2021
At 31 March				
Discount rate	2.75%	2.05%	(0.92)%	(1.11)%
Inflation – average increase in RPI	3.70%	3.20%	–	–
Inflation – average increase in CPI	3.25%	2.75%	(0.43)%	(0.44)%

^a The real rate is calculated relative to RPI inflation.

20. Retirement benefit plans continued

The BTPS represents around 97% of the group's pension liabilities. While the financial assumptions may vary for each scheme, the nominal financial assumptions weighted by liabilities across all schemes are equal to the figures shown in the table above (to the nearest 0.05%).

The key demographic assumptions used to measure the IAS 19 liabilities of the BTPS relate to how long members are expected to live. Based on these assumptions, the forecast life expectancies for BTPS members aged 60 are as follows:

	2022	2021
	Number of years	Number of years
At 31 March		
Male in lower pension bracket (below £20,300 p.a.)	25.2	25.5
Male in higher pension bracket (above £20,300 p.a.)	27.3	27.6
Female	27.8	27.9
Average additional life expectancy for a male member retiring at age 60 in 10 years' time	0.4	0.4

The table below summarises the approach used to set the key IAS 19 assumptions for the BTPS and key drivers for the movement in the assumptions.

	Detail
Discount rate	IAS 19 requires that the discount rate is determined by reference to market yields at the balance sheet date on high quality corporate bonds. The currency and term of these should be consistent with the currency and estimated term of the pension liabilities. The assumption is calculated by applying the projected BTPS benefit cash flows to a corporate bond yield curve constructed by our external actuary based on the yield on AA-rated corporate bonds. In setting the yield curve, judgement is required on the selection of appropriate bonds to be included in the universe and the approach used to then derive the yield curve. The increase in the discount rate over the year reflects changes in the market yield of corporate bonds.
RPI and CPI inflation	The RPI inflation assumption is calculated by applying the projected BTPS benefit cash flows to an inflation curve derived from market yields on government bonds, and making an adjustment for an inflation risk premium (to reflect the extra premium paid by investors for inflation linked assets). The CPI inflation assumption is calculated with reference to the RPI inflation assumption taking into account market forecasts and independent estimates of the expected difference. In 2020, it was announced that RPI will be aligned with CPIH from 2030 onwards. Therefore, CPI inflation is assumed to be in line with RPI inflation after 2030, as historically CPI and CPIH inflation have been broadly comparable. Before 2030, CPI inflation is assumed to be 1% lower than RPI inflation, reflecting the latest published inflation forecasts. At the prior reporting date CPI inflation was assumed to be 0.9% lower than RPI inflation before 2030. This change reduced the BTPS IAS 19 liabilities by £0.2bn.
Pension increases	Benefits are assumed to increase in line with the RPI or CPI inflation assumptions, based on the relevant index for increasing benefits, as prescribed by the rules of the BTPS and summarised above.
Longevity	The longevity assumption takes into account: - the actual mortality experience of the BTPS pensioners, based on a formal review conducted at the 2020 triennial funding valuation - future improvements in longevity based on a model published by the UK actuarial profession's Continuous Mortality Investigation (CMI) (updating to use the CMI 2020 Mortality Projections model, with a long-term improvement parameter of 1% per year). There is significant uncertainty on the impact of the Covid-19 pandemic on mortality. The default CMI 2020 model makes no allowance for deaths in 2020, when there were higher deaths due to the Covid-19 pandemic, but provides an additional parameter to allow users to make their own judgement of the extent to which deaths in 2020 will impact future improvements. We have assumed a short-term slow down in life expectancy improvements, with a neutral impact over the longer-term. Based on analysis carried out by the CMI, this scenario is equivalent to applying a 15% weighting on 2020 data and has reduced the BTPS IAS 19 liabilities by £0.7bn.

Notes to the consolidated financial statements continued

20. Retirement benefit plans continued

Risks underlying the BTPS deficit

Background

A large increase in our pension scheme obligations could stop us from being able to fund our business cash flows or meet our payment commitments. Things like future low investment returns, high inflation, longer life expectancy and regulatory changes may all mean the BTPS becomes more of a financial burden to BT.

Changes in external factors, such as bond yields, can have an impact on the IAS 19 and funding assumptions, impacting the measurement of BTPS liabilities. These factors can also impact the BTPS assets. The BTPS hedges some of these risks, including interest rates, inflation, longevity and currency using financial instruments and insurance contracts with reference to the funding liabilities.

Some of the key financial risks, and mitigations, for the BTPS are set out in the table below.

Changes in government bond yields	A fall in government bond yields will lead to: • a fall in corporate bond yields (assuming no changes in credit spreads), and therefore the IAS 19 discount rate. A fall in the IAS 19 discount rate will increase the IAS 19 liabilities. • an increase in the value of government bonds, interest rate derivatives, and corporate bonds held by the BTPS. We estimate the change in the BTPS assets will more than offset the increase in the IAS 19 liabilities, but only partly offset an increase in the funding liabilities.
Changes in credit spreads	A fall in credit spreads will lead to a fall in corporate bond yields, and therefore an increase in the IAS 19 liabilities and a corresponding increase in asset values.
Changes in inflation expectations	A significant proportion of the benefits paid to members are currently increased in line with RPI or CPI inflation. Changes in average inflation expectations over the lifetime of the plan An increase in average inflation expectations will lead to: • an increase in the IAS 19 liabilities • an increase in the value of index-linked bonds and other inflation linked assets held by the BTPS We estimate the change in the BTPS assets will more than offset the increase in the IAS 19 liabilities, but only partly offset an increase in the funding liabilities. Changes in inflation over the next year If inflation over the next year is lower or higher than assumed, it would lead to a fall or increase in the IAS 19 liabilities. We estimate the change in asset values will broadly offset the movement in the IAS 19 liabilities.
Changes in growth assets	A significant proportion of the BTPS assets are invested in growth assets, such as equities and property. Although the BTPS has temporary hedges in place to partly offset the impact of a fall in equity markets, and adopts a diverse portfolio, a fall in these growth assets will lead to a worsening of the net defined benefit liability.
Changes in life expectancy	An increase in the life expectancy of members will result in benefits being paid out for longer, leading to an increase in the BTPS liabilities. The BTPS holds a longevity insurance contract which covers around 20% of the BTPS's total exposure to improvements in longevity, providing long-term protection and income to the BTPS in the event that members live longer than currently expected.

Other risks include: changes in legislation or regulation which impact the value of the liabilities or assets; and member take-up of options before and at retirement to reshape their benefits.

20. Retirement benefit plans continued

IAS 19 Scenario analysis

The potential negative impact of the key risks is illustrated by the following five scenarios. These have been assessed by BT's independent actuary as scenarios that might occur no more than once in every 20 years.

Scenario	1-in-20 events	
	2022	2021
1. Fall in bond yields ^a	0.8%	1.1%
2. Increase in credit spreads ^b	0.7%	0.7%
3. Increase to average inflation expectations over the lifetime of the plan ^c	0.6%	0.7%
4. Fall in growth assets ^d	20.0%	20.0%
5. Increase to life expectancy	1.00 years	1.00 years

a Scenario assumes a fall in the yields on both government and corporate bonds.

b Scenario assumes an increase in the yield on corporate bonds, with no change to yield on government bonds.

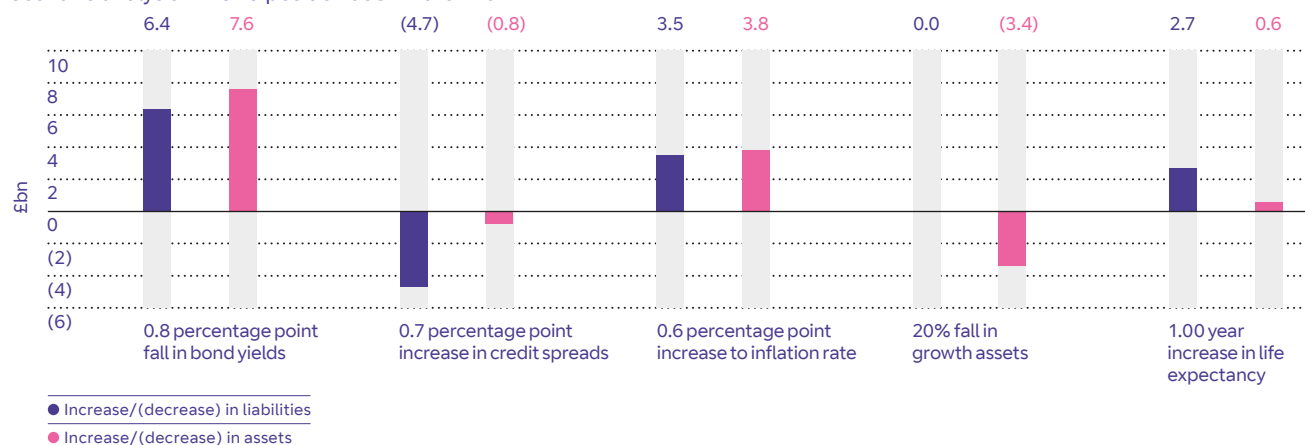
c Scenario assumes average RPI and CPI inflation expectations over the lifetime of the plan increase by the same amount.

d Impact includes the potential impact of temporary equity hedges held by the BTPS. Scenario considers combinations of changes to the key inputs used to value the growth assets, leading to a 20% fall in the aggregate value of the growth assets prior to temporary hedges held by the BTPS.

The impact shown under each scenario looks at each event in isolation – in practice a combination of events could arise.

Impact of illustrative scenarios which might occur no more than once in every 20 years

Scenario analysis – IAS 19 position at 31 March 2022



The sensitivities have been prepared using the same approach as FY21 which involves calculating the liabilities and assets assuming the change in market conditions assumed under the scenario occurs.

BTPS funding

Triennial funding valuation

A funding valuation is carried out for the Trustee by a professionally qualified independent actuary at least every three years. The purpose of the funding valuation is for BT and the Trustee to agree cash contributions from BT to the BTPS to ensure the BTPS has sufficient funds available to meet future benefit payments to members. It is prepared using the principles set out in UK Pension legislation, such as the 2004 Pensions Act, and uses a prudent approach overall.

This differs from the IAS 19 valuation, which is used for deriving the balance sheet and P&L figures in the Group accounts with principles being set out in the IFRS standards, and uses a best-estimate approach overall (with the exception of the discount rate, which IAS 19 requires to be based on the yields on high quality corporate bonds regardless of the investment held by the BTPS).

The different purpose and principles lead to different assumptions being used, and therefore a different estimate for the liabilities and deficit.

The latest funding valuation was performed as at 30 June 2020. The next funding valuation will have an effective date of no later than 30 June 2023.

Notes to the consolidated financial statements continued

20. Retirement benefit plans continued

The results of the two most recent funding valuations are shown below.

	June 2020 valuation £bn	June 2017 valuation £bn
BTPS funding liabilities	(65.3)	(60.4)
Market value of BTPS assets	57.3	49.1
Funding deficit	(8.0)	(11.3)
Percentage of accrued benefits covered by the BTPS assets at valuation date	88%	81%
Percentage of accrued benefits on a solvency basis covered by the BTPS assets at the valuation date	71%	62%

Key assumptions – funding valuation

The most recent funding valuations were determined using the following prudent long-term assumptions.

	Nominal rates (per year)		Real rates (per year) ^a	
	June 2020 valuation %	June 2017 valuation %	June 2020 valuation %	June 2017 valuation %
Average single equivalent discount rate	1.4	2.6	(1.7)	(0.8)
Average long-term increase in RPI	3.2	3.4	–	–
Average long-term increase in CPI	2.4	2.4	(0.7)	(1.0)

a The real rate is calculated relative to RPI inflation and is shown as a comparator.

The discount rate at 30 June 2020 was derived from prudent return expectations above a risk-free yield curve based on gilt and swap rates. The discount rate reflects the investment strategy over time, allowing for the BTPS to de-risk to a portfolio consisting predominantly of bond and bond-like investments by 2034. It has been set consistently with the 2017 valuation, mechanically updated to reflect the move in swap pricing from LIBOR to SONIA, leading to a prudent discount rate of 1.4% per year above the risk-free yield curve in 2020, trending down to 0.8% per year above the risk-free yield curve from 2035. The assumption was equivalent to using a flat discount rate of 0.9% per year above the risk-free yield curve at 30 June 2020.

The average life expectancy assumptions at the funding valuation dates, for members 60 years of age, are as follows.

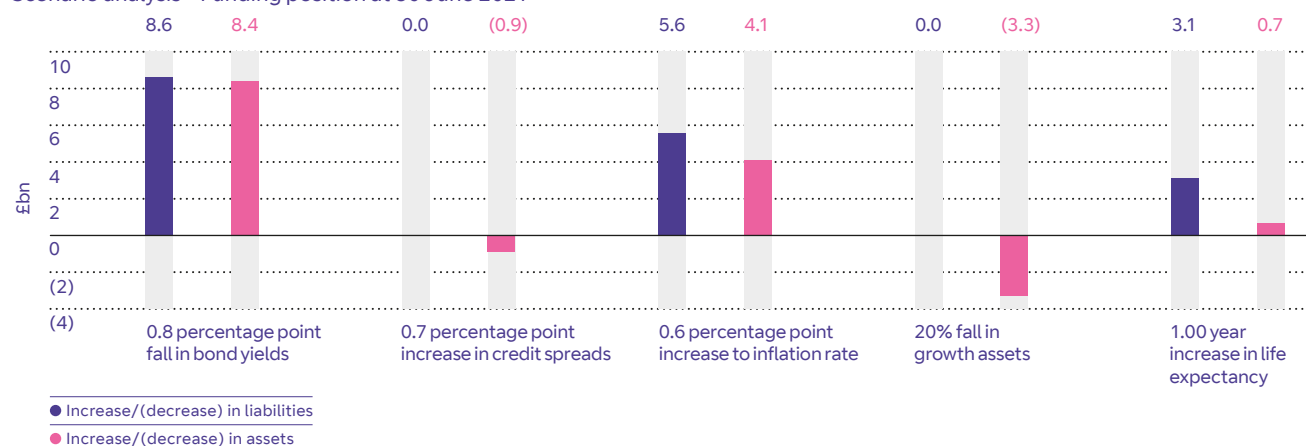
Number of years from valuation date	June 2020 assumptions	June 2017 assumptions
Male in lower pension bracket	25.8	25.9 to 27.2
Male in higher pension bracket	28.0	28.6
Female	28.5	28.6 to 28.9
Average additional life expectancy for a member retiring at age 60 in 10 years' time	0.9	0.9

Changes in the funding position (unaudited)

The Scheme Actuary has carried out an interim assessment as at 30 June 2021, estimating the BTPS's funding position to have improved from a funding deficit of £8.0bn to £4.1bn. BT and the Trustee will agree cash contributions in the usual way at the next full triennial funding valuation, scheduled to take place as at 30 June 2023.

Changes in market conditions can have a different impact on the funding liabilities and the IAS 19 liabilities. For example, the funding liabilities use a discount rate linked to a risk-free rate, whereas the IAS 19 liabilities use a discount rate based on corporate bond yields (and so are affected by changes in credit spreads). The estimated impact of the scenarios illustrated on [page 175](#) on the 30 June 2021 interim assessment of the funding position are shown in the table below.

Scenario analysis – Funding position at 30 June 2021



20. Retirement benefit plans continued

Future funding obligations and deficit repair plan

Under the terms of the Trust Deed, the group is required to have a funding plan, determined at the conclusion of the triennial funding valuation, which is a legal agreement between BT and the Trustee and should address the deficit over a maximum period of 20 years.

In May 2021, the 2020 triennial funding valuation was finalised, agreed with the Trustee and certified by the Scheme Actuary. The funding deficit at 30 June 2020 was £8.0bn. The funding deficit was agreed to be met as follows:

- £2bn met through an Asset Backed Funding arrangement (ABF) which is structured as a Scottish Limited Partnership (SLP) with BT and BTPS as limited partners, and BT Corporate Limited as general partner. The underlying asset is a loan note issued by EE Group Investments Limited, with an initial face value of £1.9bn. The BTPS has an entitlement to the full value of the loan note in the event of an insolvency of BT.

The loan note had a term of approximately 13 years. On or before 30 June each year (with a final payment in June 2033), the ABF will distribute capital and interest amounting to £180m to the BTPS, provided that the BTPS was in deficit on a funding basis as at 30 June of the preceding year. If the BTPS reaches full funding at any 30 June, the payments to the BTPS will cease. The stream of payments are financed through distributions from EE Limited and shares in EE Limited provide security over the payment stream. No impact is expected on the day-to-day operations of BT or EE as a result. The fair value of the BTPS investment in the ABF at the date of investment was £1.66bn, with BT receiving tax relief on that amount spread over four years. This is calculated as the net present value of the annual capital and interest payments, and is less than the face value of the underlying loan note reflecting the probability of the BTPS becoming fully funded, and therefore the annual capital and interest payments to the BTPS ending before the underlying loan note matures. Following receipt of the first £180m capital and interest payment, the fair value of the BTPS investment in the ABF as at 31 March 2022 was £1.4bn.

The ABF has no impact on the gross IAS 19 deficit in the BT Group plc consolidated accounts initially, but has reduced the deferred tax asset recognised, as some tax relief has been received up-front. Annual capital and interest payments will reduce the IAS 19 net defined benefit liability.

- Cash contributions over the 10 years to 30 June 2030.

Co-investment vehicle

BT and the Trustee agreed a co-investment vehicle at the 30 June 2020 valuation which provides BT with some protection against the risk of overfunding by allowing money to be returned to BT if not needed by the BTPS, enabling BT to provide upfront funding with greater confidence.

BT has the option to pay deficit repair plan payments after 30 June 2023 into the co-investment vehicle (which is a SLP separate to the SLP used for the ABF), which will be invested as if part of the overall BTPS investment strategy. The value of the assets held in the vehicle are included in the assets of the BTPS for the purposes of calculating both the funding deficit and the IAS 19 net defined benefit liability.

To the extent there is a funding deficit at 30 June 2034, the co-investment vehicle will pay funds to the BTPS. BT will receive tax relief on funds paid at this point, rather than in the year when funds are paid from BT into the vehicle.

Any remaining funds in the co-investment vehicle will then be returned to BT in three annual payments in 2035, 2036 and 2037, unless the BTPS has subsequently moved into funding deficit or the Trustee, acting prudently but reasonably, decides to defer or reduce these payments.

At 31 March 2022, there were less than £1m of assets in the co-investment vehicle.

Future funding commitment

At the 2020 valuation, BT agreed additional contributions will be automatically payable in the event the deficit repair plan is no longer sufficient to meet the funding deficit.

Should an annual update of the funding position reveal that the BTPS has fallen more than £1bn behind plan, BT will commence additional payments of between £150m to £200m per year. The payments will stop once the funding deficit at a future annual update has improved such that the remaining deficit repair plan is sufficient to meet the funding deficit. Payments can switch-on again if the funding deficit position subsequently deteriorates.

The first annual test was carried out as at 30 June 2021. This showed that the deficit repair plan was still sufficient to meet the funding deficit, and hence no additional contributions were required. The next annual test will be carried out as at 30 June 2022.

Any additional contributions under this agreement cease by 30 June 2034.

Notes to the consolidated financial statements continued

20. Retirement benefit plans continued

These payments are set out in the table below.

Year to 31 March	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Cash provided by BT	800 ^a	610 ^b	600 ^c	600 ^c	600 ^c	600 ^c	600 ^c	600 ^c	500 ^c	–	–	–
Cash provided by ABF structure	180	180	180	180	180	180	180	180	180	180	180	180
Total	980	790	780	780	780	780	780	780	680	180	180	180

a £400m due by 30 June.

b £500m due by 30 June.

c £490m of each payment due by 30 June. £10m is directly payable to the BTPS, and BT has the option to pay remaining amounts into the co-investment vehicle.

Other protections

BT has agreed to provide the Trustee with certain protections to 2035, or until the deficit calculated using the long-term discount rate, currently 0.8% per year above the risk-free yield curve, (Protections Deficit) has reduced below £2bn. A £2bn deficit on this measure is currently broadly equivalent to a nil funding deficit. The protections include:

Feature	Detail
Shareholder distributions	BT will provide additional payments to the BTPS by the amount that shareholder distributions exceed a threshold. For the three years following the 2020 valuation, the threshold allows for 10% per year dividend per share growth based on dividends restarting at 7.7p per share in 2021/22. BT has agreed to implement a similar protection at each subsequent valuation, with the terms to be negotiated at the time. BT will consult with the Trustee if: - it considers share buybacks for any purpose other than relating to employee share awards; - it considers making any shareholder distributions in any of the next 3 years if annual normalised free cash flow of the Group is below £1bn in the year and distributions within the year would be in excess of 120% of the above threshold; or - it considers making a special dividend.
Material corporate events	In the event that BT generates net cash proceeds greater than a threshold from disposals (net of acquisitions) in any financial year, BT will make additional contributions to the BTPS. The threshold is £750m until 30 June 2023, and £1bn thereafter (increased by CPI from 30 June 2020). The amount payable is one third of the total net cash proceeds, or the amount by which the Protections Deficit exceeds £2bn if lower. BT will consult with the Trustee if: - it considers making acquisitions with a total cost of more than £1.0bn in any 12-month period; - it considers making disposals of more than £1.0bn; - it considers making a Class 1 transaction (acquisition or disposal); - it is likely to be subject to a takeover offer; or - there is any other material corporate or third-party events which may have a material detrimental impact on BT's covenant to the BTPS, and BT will use best endeavours to agree appropriate mitigation This obligation is on-going until otherwise terminated.
Negative pledge	A negative pledge that future creditors will not be granted superior security to the BTPS in excess of a £0.5bn threshold, to cover any member of the BT group. Business as usual financing arrangements are not included within the £0.5bn threshold.

20. Retirement benefit plans continued

In the highly unlikely event that the group were to become insolvent there are additional protections of BTPS members' benefits:

Feature	Detail
Crown Guarantee	The Crown Guarantee was granted by the Government when the group was privatised in 1984 and would only come into effect upon the insolvency of BT. The Trustee brought court proceedings to clarify the scope and extent of the Crown Guarantee. The Court of Appeal judgement on 16 July 2014 established that: - the Crown Guarantee covers BT's funding obligation in relation to the benefits of members of the BTPS who joined post-privatisation as well as those who joined pre-privatisation (subject to certain exceptions) - the funding obligation to which the Crown Guarantee relates is measured with reference to BT's obligation to pay deficit contributions under the rules of the BTPS. The Crown Guarantee is not taken into account for the purposes of the actuarial valuation of the BTPS and is an entirely separate matter, only being relevant in the highly unlikely event that BT became insolvent.
Pension Protection Fund (PPF)	Further protection is also provided by the PPF which is the fund responsible for paying compensation in schemes where the employer becomes insolvent.

Other benefit plans

EEPS

The EEPS is the second largest defined benefit plan sponsored by the group. It has a defined benefit section that is closed to future accrual, with liabilities of around £1.0bn, and a defined contribution section with around 8,000 members.

At 31 March 2022, the defined benefit section's assets are invested across a number of asset classes including global equities (26%), property & illiquid alternatives (31%), an absolute return portfolio (17%) and a liability driven investment portfolio (26%).

A triennial valuation of the defined benefit section as at 31 December 2021 is currently underway. The previous triennial valuation was performed as at 31 December 2018 and agreed in March 2020. This showed a funding deficit of £161m. The group is scheduled to contribute £3.3m each month until 31 July 2022.

BTRSS

The BTRSS is the largest defined contribution plan maintained by the group with around 66,000 active members. In the year to 31 March 2022, £469m of contributions were payable by the group to the BTRSS.

BTHS

The BTHS combines elements of both defined benefit and defined contribution pension plans. At 31 March 2022 it had IAS 19 liabilities of around £45m and £9.9m of contributions were payable by the group to the BTHS.

21. Own shares

Significant accounting policies that apply to own shares

Own shares are recorded at cost and deducted from equity. When shares held for the beneficial ownership of employees vest unconditionally or are cancelled they are transferred from the own shares reserve to retained earnings at their weighted average cost.

	Treasury shares ^a		Employee share ownership trust ^a		Total	
	millions	£m	millions	£m	millions	£m
At 1 April 2020	86	(223)	7	(14)	93	(237)
Own shares purchased ^b	–	–	11	(14)	11	(14)
Yourshare issue	(35)	90	–	–	(35)	90
Share options exercised ^b	–	1	–	–	–	1
Share awards vested	–	–	(9)	17	(9)	17
At 31 March 2021	51	(132)	9	(11)	60	(143)
Own shares purchased ^b	–	–	114	(210)	114	(210)
Yourshare issue	(1)	2	(18)	34	(19)	36
Share options exercised ^b	(9)	22	–	–	(9)	22
Share awards vested	–	–	(11)	21	(11)	21
At 31 March 2022	41	(108)	94	(166)	135	(274)

a At 31 March 2022, 41,429,938 shares (FY21: 50,724,972) with an aggregate nominal value of £2m (FY21: £3m) were held at cost as treasury shares and 94,120,883 shares (FY21: 9,172,675) with an aggregate nominal value of £5m (FY21: £nil) were held in the Trust.

b See group cash flow statement. The cash paid for the repurchase of ordinary shares was £184m (FY21: £14m). 15m shares (FY21: nil) were purchased via a forward contract. The cash received for proceeds on the issue of treasury shares was £13m (FY21: £1m).

Notes to the consolidated financial statements continued

21. Own shares continued

The treasury shares reserve represents BT Group plc shares purchased directly by the group. The BT Group Employee Share Ownership Trust (the Trust) also purchases BT Group plc shares.

The treasury shares and the shares in the Trust are being used to satisfy our obligations under employee share plans, further details of which are provided in note 22.

22. Share-based payments

Significant accounting policies that apply to share-based payments

We operate a number of equity-settled share-based payment arrangements, under which we receive services from employees in consideration for equity instruments (share options and shares) of the group. Equity-settled share-based payments are measured at fair value at the date of grant. Market-based performance criteria and non-vesting conditions (for example, the requirement for employees to make contributions to the share purchase programme) are reflected in this measurement of fair value. The fair value determined at the grant date is recognised as an expense on a straight line basis over the vesting period, based on the group's estimate of the options or shares that will eventually vest and adjusted for the effect of non market-based vesting conditions. Fair value is measured using either the Binomial options pricing model or Monte Carlo simulations, whichever is more appropriate to the share-based payment arrangement.

Service and performance conditions are vesting conditions. Any other conditions are non-vesting conditions which have to be taken into account to determine the fair value of equity instruments granted. In the case that an award or option does not vest as a result of a failure to meet a non-vesting condition that is within the control of either counterparty, this is accounted for as a cancellation. Cancellations are treated as accelerated vesting and all remaining future charges are immediately recognised in the income statement. As the requirement to save under an employee saveshare arrangement is a non-vesting condition, employee cancellations, other than through a termination of service, are treated as an accelerated vesting.

No adjustment is made to total equity for awards that lapse or are forfeited after the vesting date.

Year ended 31 March	2022 £m	2021 £m
Employee saveshare plans	29	38
Yourshare	28	18
Executive share plans:		
Incentive Share Plan (ISP)	14	(8)
Deferred Bonus Plan (DBP)	11	10
Retention and Restricted Share Plans (RSP)	26	14
	108	72

What share incentive arrangements do we have?

Our plans include savings-related share option plans for employees and those of participating subsidiaries and several share plans for executives. All share-based payment plans are equity-settled. Details of these plans are set out below.

Employee Saveshare Plans

Under an HMRC-approved savings-related share option plan, employees save on a monthly basis, over a three or five-year period, towards the purchase of shares at a fixed price determined when the option is granted. This price is set at a 20% discount to the market price for five-year plans and 10% for three-year plans. The options must be exercised within six months of maturity of the savings contract, otherwise they lapse. Similar plans operate for our overseas employees. The scheme did not operate in FY22.

Incentive Share Plan (ISP)

Participants are entitled to shares under the ISP in full at the end of a three-year period only if the group has met the relevant pre-determined corporate performance measures and if the participants are still employed by the group. The last ISP award was granted in 2019. For this award, 40% of each award is linked to a total shareholder return (TSR) target for a comparator group of companies from the beginning of the relevant performance period; 40% is linked to a three-year cumulative normalised free cash flow measure; and 20% to growth in underlying revenue.

The cash flow and revenue targets under the 2019 ISP were adjusted in FY22 to reflect acquisitions and divestments during the three-year period to ensure performance is being measured on a like-for-like basis. This resulted in a charge of £14m for the year (FY21: credit of £8m).

Deferred Bonus Plan (DBP)

Awards are granted annually to selected employees. Shares in the group are transferred to participants at the end of three years if they continue to be employed by the group throughout that period.

Retention and Restricted Share Plans (RSP)

Awards are granted to selected employees. Shares in the group are transferred to participants at the end of a specified retention or restricted period if they continue to be employed by the group throughout that period.

22. Share-based payments continued

Yourshare

In June 2021, all eligible employees of the group were awarded £500 of BT shares (FY21: £500). The shares will be held in trust for a 3 year vesting period after which they will be transferred to employees, providing they have been continuously employed during that time. A similar plan operates for overseas employees.

Under the terms of Yourshare and the executive share plans, dividends are reinvested in shares that are added to the relevant share awards.

Employee Saveshare Plans

Movements in Employee Saveshare options are shown below.

	Number of share options		Weighted average exercise price	
	2022 millions	2021 millions	2022 pence	2021 pence
Year ended 31 March				
Outstanding at 1 April	414	214	121	202
Granted	–	283	–	85
Forfeited	(41)	(59)	127	175
Exercised	(9)	–	152	85
Expired	(22)	(24)	229	277
Outstanding at 31 March	342	414	113	121
Exercisable at 31 March	–	–	–	282

The weighted average share price for all options exercised during FY22 was 185p (FY21: 134p).

The following table summarises information relating to options outstanding and exercisable under Employee Saveshare plans at 31 March 2022.

Normal dates of vesting and exercise (based on calendar years)	Exercise price per share	Weighted average exercise price	Number of outstanding options millions	Weighted average remaining contractual life (months)
2022	164p – 243p	201p	36	10
2023	82p – 170p	108p	102	22
2024	164p	164p	44	34
2025	82p	82p	160	46
Total		113p	342	34

Executive share plans

Movements in executive share plan awards are shown below:

	Number of shares (millions)			
	ISP	DBP	RSP	Total
At 1 April 2020	91	12	13	116
Awards granted	–	10	41	51
Awards vested	–	(2)	(6)	(8)
Awards lapsed	(25)	–	(1)	(26)
At 1 April 2021	66	20	47	133
Awards granted	–	7	23	30
Awards vested	–	(4)	(7)	(11)
Awards lapsed	(35)	(1)	(6)	(42)
Dividend shares reinvested	–	–	1	1
At 31 March 2022	31	22	58	111

Notes to the consolidated financial statements continued

22. Share-based payments continued

Fair values

The following table summarises the fair values and key assumptions used for valuing grants made under the Employee Saveshare plans in FY21. There were no grants under Employee Saveshare in FY22.

Year ended 31 March 2021	Employee Saveshare
Weighted average fair value	23p
Weighted average share price	114p
Weighted average exercise price of options	85p
Expected dividend yield	5.19% – 6.49%
Risk free rates	-0.001% – 0.11%
Expected volatility	28.33% – 28.39%

Employee Saveshare grants are valued using a Binomial options pricing model. Awards under the ISP were valued using Monte Carlo simulations. TSRs are generated for BT and the comparator group at the end of the three-year performance period, using each company's volatility and the cross correlation between pairs of stocks. There were no ISP awards granted in FY21 or FY22.

Volatility has been determined by reference to BT's historical volatility which is expected to reflect the BT share price in the future. An expected life of six months after vesting date is assumed for Employee Saveshare options. For all other awards the expected life is equal to the vesting period. The risk-free interest rate is based on the UK gilt curve in effect at the time of the grant, for the expected life of the option or award.

The fair values for the DBP and RSP were determined using the market price of the shares at the grant date. The weighted average share price for DBP awards granted in FY22 was 203p (FY21: 117p) and for RSP awards granted in FY22 was 201p (FY21: 103p).

23. Divestments and assets & liabilities classified as held for sale

Significant accounting policies that apply to divestments and assets & liabilities classified as held for sale

We classify non-current assets or a group of assets and associated liabilities, together forming a disposal group, as 'held for sale' when their carrying amount will be recovered principally through disposal rather than continuing use and the sale is highly probable. Sale is considered to be highly probable when management are committed to a plan to sell the asset or disposal group and the sale should be expected to qualify for recognition as a completed divestment within one year from the date of classification. We measure non-current assets or disposal groups classified as held for sale at the lower of their carrying amount and fair value less costs of disposal. Intangible assets, property, plant and equipment and right-of-use assets classified as held for sale are not depreciated or amortised.

Upon completion of a divestment, we recognise a profit or loss on disposal calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest less costs incurred in disposing of the asset or disposal group and (ii) the carrying amount of the asset or disposal group (including goodwill). The profit or loss on disposal is recognised as a specific item, see note 9.

In the event that non-current assets or disposal groups held for sale form a separate and identifiable major line of business, the results for both the current and comparative periods are reclassified as 'discontinued operations'.

Divestments

During the year we completed the disposals of Diamond IP, a non-core software business in America, and certain business units in Italy serving customers in the public administration and SME sectors, recording a combined net gain of £35m.

In FY21 we recorded a net gain of £80m on disposal of our domestic operations in Spain, a combined net loss of £11m on the disposals of our domestic operations in France and Latin America, and a net loss of £4m relating to the disposal of a number of other businesses.

The divestment of these operations is in line with our long-term strategy. The disposals in the current or prior year have not been reclassified as discontinued operations as they do not meet our definition of a separate major line of business.

23. Divestments and assets & liabilities classified as held for sale continued

The net consideration recognised on completion of these divestments was as follows:

	2022 £m	2021 £m
Intangible assets (including goodwill)	12	37
Property, plant and equipment	6	39
Right-of-use assets	1	38
Other non-current assets	1	3
Current assets	26	159
Liabilities	(15)	(199)
Net assets of operations disposed^a	31	77
Less: recycling from translation reserve ^b	(1)	(23)
Net impact on the consolidated balance sheet	30	54
Profit on disposal ^c	41	65
Net consideration	71	119
Satisfied by		
Proceeds received in the year per the cash flow statement	76	164
Adjustments to non-cash consideration ^d	(2)	(25)
Costs of disposal ^e	(3)	(20)
Net consideration	71	119

a FY21 assets are stated after impairment charge booked on held for sale classification in FY20 on the France and Latin America divestments.

b Cumulative translation differences previously held in equity and recycled to the income statement on disposal of foreign operations.

c FY22 profit on disposal includes true-ups on divestments completed in prior years. The net gain is fully recognised as specific items, see note 9.

d Includes provisions for proceeds to be paid back to the purchaser through deferred or contingent payments or where negotiations on post-completion purchase price adjustments were ongoing at the end of the year.

e £1m (FY21: £13m) disposal costs have been paid and are included within cash flows from operating activities in the cash flow statement. The remaining £2m (FY21: £7m) costs were accrued for at the end of the year.

Assets and liabilities held for sale

At 31 March 2022, the group had one disposal group held for sale, BT Sport, which was previously held within the Consumer segment. No other disposal groups were classified as held for sale during FY21 or FY22.

BT Sport

In May 2022 we reached an agreement with Warner Bros. Discovery (Discovery) to create a sports joint venture (JV) combining BT Sport and Discovery's Eurosport UK business into a separate legal entity with both BT and Discovery each holding a 50% interest and equal voting rights. The production and operational assets of BT Sport will transfer to, and become a wholly owned subsidiary of, Discovery who will manage and operate the production of the sport content.

Discovery will have the option to acquire BT's 50% interest in the JV at specified points during the first four years of the JV. The price payable under the Call Option will be 50% of the JV, at a price to be determined at the time, plus any unpaid fixed consideration and remaining earn-out as described below. If the Call Option is not exercised, BT will have the ability to exit its shareholding in the JV either through a sale or IPO.

At completion of the transaction, BT is expected to lose control of the BT Sport operations and the group's interest in the combined business is expected to be classified as a Joint Venture under IFRS 11 based on the assessment of ownership and joint control over the key decisions of the JV (50/50 with Discovery) established through the joint venture agreement. BT will enter into a distribution agreement with the JV to procure the sport content required to continue to supply our existing broadband, TV and mobile customers. BT's agreement with the JV will extend beyond 2030 and for the first four years includes a minimum revenue guarantee of approximately £500m per annum, after which the agreement will change to a fully variable arrangement.

BT Sport's distribution agreement with Virgin Media will transfer into the JV, and the JV will also enter into a new agreement with Sky extending beyond 2030 to provide for its distribution of the JV's combined sports content. BT will also enter into a distribution agreement with Discovery to provide discovery+, the non-fiction entertainment streaming service to its direct BT TV and BT Sport customers.

The transaction is subject to regulatory approval, but it is expected to conclude by the end of 2022 and meets the held for sale criteria per IFRS 5. Accordingly, the asset and liabilities of the BT Sport disposal group have been classified as held for sale at 31 March 2022.

The assets of the disposal group have been tested for impairment under existing relevant standards immediately prior to classification as held for sale with no impairment recognised.

Notes to the consolidated financial statements continued

23. Divestments and assets & liabilities classified as held for sale continued

As the estimated fair value from the joint venture transaction, net of any costs incurred or liabilities recognised, is higher than the carrying value of the disposal group, no impairment has been recognised subsequent to classification as held for sale. We used the discounted cash flows due to BT from fixed consideration of £93m payable in four instalments over the next three years and variable consideration whereby BT will be issued with redeemable preferred shares in the JV which will entitle BT to receive an earn out from the JV of up to approximately £540m over the first four years post completion subject to certain conditions being met, plus a potential exit value from the sale of the group's 50% interest, as total gross consideration. BT's obligation under the minimum revenue guarantee in the distribution agreement has been treated as a reduction to the fair value of the consideration in the impairment test. The inputs into the fair value calculation are classified as Level 3 on the fair value hierarchy and supported by internal valuation models over which we have applied sensitivities on the future cash flows from the JV and the trading multiples for the exit valuation.

BT Sport has not been reclassified as a discontinued operation as it does not meet our definition of a separate major line of business.

The BT Sport disposal group comprises the following assets and liabilities:

At 31 March	2022 £m
Assets	
Intangible assets ^a	55
Property, plant and equipment	13
Right-of-use assets	2
Trade and other receivables	10
Assets held for sale^b	80
Liabilities	
Trade and other payables	38
Lease liabilities	2
Liabilities held for sale	40

a Intangible assets includes goodwill of £51m that has been allocated to the disposal group on a relative value approach as per IAS 36.

b £310m of programme rights relating to sports broadcasting rights acquired for the BT Sport operations have not been reclassified to held for sale as the carrying amount of these assets is expected to be recovered principally through continuing use before completion of the transaction.

24. Investments

Significant accounting policies that apply to investments

Investments classified as amortised cost

These investments are measured at amortised cost. The carrying amount of these balances approximates to fair value. Any gain or loss on derecognition is recognised in the income statement.

Investments classified as fair value through profit and loss

These investments are initially recognised at fair value plus direct transaction costs. They are re-measured at subsequent reporting dates to fair value and changes are recognised directly in the income statement.

Equity instruments classified as fair value through other comprehensive income

We have made an irrevocable election to present changes in the fair value of equity investments that are not held for trading in other comprehensive income. All gains or losses are recognised in other comprehensive income and are not reclassified to the income statement when the investments are disposed of, aside from dividends which are recognised in the income statement when our right to receive payment is established. Equity investments are recorded in non-current assets unless they are expected to be sold within one year.

At 31 March	2022 £m	2021 £m
Non-current assets		
Fair value through other comprehensive income	34	20
Fair value through profit or loss	–	11
Total non-current asset investments	34	31
Current assets		
Investments held at amortised cost	2,679	3,652
Current asset investments	2,679	3,652

Investments held at amortised cost relate to money market investments denominated in sterling of £2,225m (FY21: £3,171m), in euros of £436m (FY21: £456m) and in US dollars of £18m (FY21: £25m). Within these amounts are investments in liquidity funds of £1,912m (FY21: £3,570m), £67m collateral paid on swaps (FY21: £82m) and repurchase agreements £700m (FY21: £nil).

24. Investments continued

Fair value estimation

Fair value hierarchy At 31 March 2022	Level 1 £m	Level 2 £m	Level 3 £m	Total held at fair value £m
Non-current and current investments				
Fair value through other comprehensive income	4	–	30	34
Total	4	–	30	34

Fair value hierarchy At 31 March 2021	Level 1 £m	Level 2 £m	Level 3 £m	Total held at fair value £m
Non-current and current investments				
Fair value through other comprehensive income	–	–	20	20
Fair value through profit or loss	11	–	–	11
Total	11	–	20	31

The three levels of valuation methodology used are:

Level 1 – uses quoted prices in active markets for identical assets or liabilities.

Level 2 – uses inputs for the asset or liability other than quoted prices that are observable either directly or indirectly.

Level 3 – uses inputs for the asset or liability that are not based on observable market data, such as internal models or other valuation methods.

Level 3 balances consist of investments classified as fair value through other comprehensive income of £30m (FY21: £20m) which represent investments in a number of private companies. If specific market data is not available, these investments are held at cost, adjusted as necessary for impairments, which approximates to fair value.

25. Cash and cash equivalents

Significant accounting policies that apply to cash and cash equivalents

Cash and cash equivalents comprise cash in hand and current balances with banks and similar institutions, which are readily convertible to cash, are subject to insignificant risk of changes in value and have an original maturity of three months or less. All are held at amortised cost on the balance sheet, equating to fair value.

For the purpose of the consolidated cash flow statement, cash and cash equivalents are as defined above net of outstanding bank overdrafts. Bank overdrafts are included within the current element of loans and other borrowings (note 26).

At 31 March	2022 £m	2021 £m
Cash at bank and in hand	324	371
Cash equivalents		
UK deposits	353	601
Indian rupee deposits	90	23
Other deposits	10	5
Total cash equivalents	453	629
Total cash and cash equivalents	777	1,000
Bank overdrafts (note 26)	(85)	(104)
Cash and cash equivalents per the cash flow statement	692	896

Cash and cash equivalents include restricted cash of £24m (FY21: £38m), of which £22m (FY21: £29m) was held in countries where local capital or exchange controls currently prevent us from accessing cash balances. The remaining balance of £2m (FY21: £9m) was held in escrow accounts, or in commercial arrangements akin to escrow.

Notes to the consolidated financial statements continued

26. Loans and other borrowings

Significant accounting policies that apply to loans and other borrowings

We initially recognise loans and other borrowings at the fair value of amounts received net of transaction costs. They are subsequently measured at amortised cost using the effective interest method and, if included in a fair value hedge relationship, are re-valued to reflect the fair value movements on the associated hedged risk. The resulting amortisation of fair value movements, on de-designation of the hedge, is recognised in the income statement.

What's our capital management policy?

The objective of our capital management policy is to target an overall level of debt consistent with our credit rating target while investing in the business, supporting the pension scheme and meeting our distribution policy. In order to meet this objective, we may issue or repay debt, issue new shares, repurchase shares, or adjust the amount of dividends paid to shareholders. We manage the capital structure and make adjustments to it accordingly to reflect changes in economic conditions and the risk characteristics of the group. The Board regularly reviews the capital structure. No changes were made to these objectives and processes during FY22. For details of share issues and repurchases in the year see note 21.

Our capital structure consists of net debt and shareholders' equity. The analysis below summarises the components which we manage as capital.

At 31 March	2022 £m	2021 £m
Net debt	18,009	17,802
Total parent shareholders' equity ^a	15,274	11,650
Capital structure	33,283	29,452

a Excludes non-controlling interests of £22m (FY21: £29m).

Net debt and net financial debt

Net debt consists of loans and other borrowings and lease liabilities, less current asset investments and cash and cash equivalents, including items which have been classified as held for sale on balance sheet.

Our net debt calculation starts from the expected undiscounted cash flows that should arise when our financial instruments mature. Currency denominated balances within net debt are translated to sterling at swapped rates where hedged. Fair value adjustments and accrued interest applied to loans and other borrowings, current asset investments and cash equivalents to reflect the effective interest method are removed. Net financial debt is net debt excluding lease liabilities.

Net debt and net financial debt are considered to be alternative performance measures as they are not defined in IFRS. The most directly comparable IFRS measure is the aggregate of loans and other borrowings and lease liabilities (current and non-current), current asset investments and cash and cash equivalents. A reconciliation from these IFRS measures to net debt and net financial debt is given below.

At 31 March	Notes	2022 £m	2021 £m
Loans and other borrowings ^a		16,185	16,685
Lease liabilities	15	5,760	6,152
Net liabilities classified as held for sale ^b	23	2	–
Less:			
Cash and cash equivalents	25	(777)	(1,000)
Current asset investments	24	(2,679)	(3,652)
		18,491	18,185
Adjustments:			
To retranslate debt balances at swap rates where hedged by currency swaps ^c		(234)	(142)
To remove accrued interest applied to reflect the effective interest method and fair value adjustments		(248)	(241)
Net debt		18,009	17,802
Lease liabilities		(5,760)	(6,152)
Lease liabilities classified as held for sale ^b		(2)	–
Net financial debt		12,247	11,650

a Includes overdrafts of £85m at 31 March 2022 (31 March 2021: £104m).

b There are lease liabilities classified as held for sale, refer to note 23.

c The translation difference between spot rate and hedged rate of loans and borrowings denominated in foreign currency.

26. Loans and other borrowings continued

The table below shows the key components of net debt and the increase of £207m this year.

	At 31 March 2021 £m	Cash flows £m	Net lease additions ^a £m	Foreign exchange £m	Transfer to within one year £m	Other movements ^d £m	At 31 March 2022 £m
Loans and other borrowings due within one year ^b	911	(1,421)	–	59	1,341	(17)	873
Lease liabilities due within one year	730	(792)	–	–	857	–	795
Loans and other borrowings due after one year	15,774	743	–	71	(1,341)	65	15,312
Lease liabilities due after one year	5,422	–	397	3	(857)	–	4,965
Liabilities classified as held for sale	–	–	–	–	–	2	2
Impact of cross-currency swaps ^c	(142)	–	–	(92)	–	–	(234)
Removal of the accrued interest and fair value adjustments	(242)	–	–	–	–	(9)	(251)
Gross debt^e	22,453	(1,470)	397	41	–	41	21,462
Less:							
Cash and cash equivalents	(1,000)	226	–	(3)	–	–	(777)
Current asset investments	(3,652)	970	–	3	–	–	(2,679)
Removal of the accrued interest	1	–	–	–	–	2	3
Net debt	17,802	(274)	397	41	–	43	18,009
	At 31 March 2020 £m	Cash flows £m	Net lease additions ^a £m	Foreign exchange £m	Transfer to within one year £m	Other movements ^d £m	At 31 March 2021 £m
Loans and other borrowings due within one year ^b	2,842	(1,731)	–	(179)	–	(21)	911
Lease liabilities due within one year	812	(924)	–	–	842	–	730
Loans and other borrowings due after one year	16,492	–	–	(742)	–	24	15,774
Lease liabilities due after one year	5,748	–	543	(27)	(842)	–	5,422
Liabilities classified as held for sale	62	–	–	–	–	(62)	–
Impact of cross-currency swaps ^c	(1,049)	–	–	907	–	–	(142)
Removal of the accrued interest and fair value adjustments	(257)	–	–	–	–	15	(242)
Gross debt^e	24,650	(2,655)	543	(41)	–	(44)	22,453
Less:							
Cash and cash equivalents	(1,549)	532	–	15	–	2	(1,000)
Current asset investments	(5,092)	1,421	–	19	–	–	(3,652)
Assets classified as held for sale	(43)	43	–	–	–	–	–
Removal of the accrued interest	3	–	–	–	–	(2)	1
Net debt	17,969	(659)	543	(7)	–	(44)	17,802

a Net lease additions are net non-cash movements in lease liabilities during the period, and primarily comprise new and terminated leases, remeasurements of existing leases and lease interest charges.

b Includes accrued interest and bank overdrafts.

c Translation of debt balances at swap rates where hedged by cross-currency swaps.

d Other movements include removal of accrued interest applied to reflect the effective interest rate method, removal of fair value adjustments and movements relating to held for sale assets and liabilities (see note 23).

e Cash flows from gross debt of £1,470m outflow (FY21: £2,655m outflow) include repayment of borrowings £1,374m (FY21: £1,162m outflow), proceeds from bank loans and bonds £744m inflow (FY21: nil), cash flows from collateral received £29m outflow (FY21: £490m outflow), payment of lease liabilities £659m outflow (FY21: £782m outflow), interest paid on lease liabilities £133m outflow (FY21: £142m outflow), and change in bank overdraft £19m outflow (FY21: £79m outflow).

Notes to the consolidated financial statements continued

26. Loans and other borrowings continued

The table below gives details of the listed bonds and other debt.

At 31 March	2022 £m	2021 £m
0.5% €575m bond due June 2022 ^{a,d}	–	491
1.125% €1,100m bond due March 2023 ^{a,d}	–	936
0.875% €500m bond due September 2023 ^a	423	426
4.5% US\$675m bond due December 2023 ^a	520	496
1% €575m bond due June 2024 ^a	489	493
1% €1,100m bond due November 2024 ^a	929	935
3.50% £250m index linked bond due April 2025	468	449
0.5% €650m bond due September 2025 ^a	549	553
1.75% €1,300m bond due March 2026 ^a	1,098	1,106
1.5% €1,150m bond due June 2027 ^a	977	984
2.125% €500m bond due September 2028 ^a	425	428
5.125% US\$700m bond due December 2028 ^a	537	512
5.75% £600m bond due December 2028	680	690
1.125% €750m bond due September 2029 ^a	631	635
3.25% US\$1,000m bond due November 2029 ^a	762	726
9.625% US\$2,670m bond due December 2030 ^a (minimum 8.625% ^b)	2,077	1,981
3.125% £500m bond due November 2031	503	503
3.64% £330m bond due June 2033	339	339
1.613% £330m index linked bond due June 2033	362	347
6.375% £500m bond due June 2037 ^a	523	522
3.883% £330m bond due June 2039	340	340
1.739% £330m index linked bond due June 2039	363	348
3.924% £340m bond due June 2042	350	350
1.774% £340m index linked bond due June 2042	374	358
3.625% £250m bond due November 2047	250	250
4.25% US\$500m bond due November 2049 ^a	383	366
1.874% €500m hybrid bond due August 2080 ^{a,c}	426	429
4.250% \$500m hybrid bond due November 2081 ^{a,c}	383	–
4.875% \$500m hybrid bond due November 2081 ^{a,c}	384	–
Total listed bonds	15,545	15,993
Other loans	555	588
Bank overdrafts (note 25)	85	104
Total other loans and borrowings	640	692
Total loans and other borrowings	16,185	16,685

a Designated in a cash flow hedge relationship.

b The interest rate payable on this bond attracts an additional 0.25% for rating category downgrade by either Moody's or Standard & Poor's to the group's senior unsecured debt below A3/A– respectively. In addition, if Moody's or Standard & Poor's subsequently increase the ratings then the interest rate will be decreased by 0.25% for each rating category upgrade by either rating agency. In no event will the interest rate be reduced below the minimum rate reflected in the above table.

c Includes call options between 3.5 years and 9.5 years.

d Bond redeemed in March 2022.

Unless previously designated in a fair value hedge relationship, all loans and other borrowings are carried on our balance sheet and in the table above at amortised cost. The fair value of listed bonds is £16,750m (FY21: £18,554m).

The fair value of our listed bonds is estimated on the basis of quoted market prices (Level 1).

The carrying amount of other loans and bank overdrafts equates to fair value due to the short maturity of these items (Level 3).

The interest rates payable on loans and borrowings disclosed above reflect the coupons on the underlying issued loans and borrowings and not the interest rates achieved through applying associated cross-currency and interest rate swaps in hedge arrangements.

The group does not have any listed bonds that are exposed to any benchmark interest rates that are impacted by the Interest Rate Benchmark reform. Overdraft arrangements have transitioned onto Alternative Reference Rates (ARRs) where applicable.

26. Loans and other borrowings continued

Loans and other borrowings are analysed as follows:

At 31 March	2022 £m	2021 £m
Current liabilities		
Listed bonds	233	219
Other loans and bank overdrafts ^a	640	692
Total current liabilities	873	911
Non-current liabilities		
Listed bonds	15,312	15,774
Total non-current liabilities	15,312	15,774
Total loans and other borrowings	16,185	16,685

a Includes collateral received on swaps of £555m (FY21: £588m).

The carrying values disclosed in the above table reflect balances at amortised cost adjusted for accrued interest and fair value adjustments to the relevant loans or borrowings. These do not reflect the final principal repayments that will arise after taking account of the relevant derivatives in hedging relationships which are reflected in the table below. All borrowings as at 31 March 2022 were unsecured.

The principal repayments of loans and borrowings at hedged rates amounted to £15,700m (FY21: £16,301m) and repayments fall due as follows:

	2022			2021		
	Carrying amount £m	Effect of hedging and interest £m	Principal repayments at hedged rates £m	Carrying amount £m	Effect of hedging and interest £m	Principal repayments at hedged rates £m
At 31 March						
Within one year, or on demand	873	(233)	640	911	(219)	692
Between one and two years	935	43	978	1,427	(69)	1,358
Between two and three years	1,415	76	1,491	915	63	978
Between three and four years	2,532	(59)	2,473	1,427	65	1,492
Between four and five years	379	(8)	371	2,529	(77)	2,452
After five years	10,041	(294)	9,747	9,463	(134)	9,329
Total due for repayment after more than one year	15,302	(242)	15,060	15,761	(152)	15,609
Total repayments	16,175	(475)	15,700	16,672	(371)	16,301
Fair value adjustments	10			13		
Total loans and other borrowings	16,185			16,685		

27. Finance expense

Year ended 31 March	2022 £m	2021 £m
Finance expense		
Interest on:		
Financial liabilities at amortised cost and associated derivatives	628	572
Lease liabilities	133	142
Derivatives	4	–
Fair value movements on derivatives not in a designated hedge relationship	4	(1)
Reclassification of cash flow hedge from other comprehensive income	64	72
Total finance expense before specific items	833	785
Specific items (note 9)	101	18
Total finance expense	934	803

Notes to the consolidated financial statements continued

28. Financial instruments and risk management

We issue or hold financial instruments mainly to finance our operations; to finance corporate transactions such as share buybacks and acquisitions; for the temporary investment of short-term funds; and to manage currency and interest rate risks. In addition, various financial instruments, for example trade receivables and payables arise directly from operations.

How do we manage financial risk?

Our activities expose us to a variety of financial risks: market risk (including interest rate risk and foreign exchange risk), credit risk and liquidity risk.

Treasury operation

We have a centralised treasury operation whose primary role is to manage liquidity and funding requirements as well as our exposure to associated market risks, and credit risk.

Treasury policy

Treasury policy is set by the Board. Group treasury activities are subject to a set of controls appropriate for the magnitude of borrowing, investments and group-wide exposures. The Board has delegated authority to operate these policies to a series of panels responsible for the management of key treasury risks and operations. Appointment to and removal from the key panels requires approval from two of the following: the chairman, the chief executive or the chief financial officer.

There has been no change in the nature of our risk profile between 31 March 2022 and the date of approval of these financial statements.

How do we manage interest rate risk?

Management policy

Interest rate risk arises primarily from our long-term borrowings. Interest cash flow risk arises from borrowings issued at variable rates, partially offset by cash held at variable rates. Fair value interest rate risk arises from borrowings issued at fixed rates.

Our policy, as set by the Board, is to ensure that at least 70% of on-going net debt is at fixed rates. Short-term interest rate management is delegated to the treasury operation while long-term interest rate management decisions require further approval by the chief financial officer, the director tax, treasury, insurance and pensions or the group treasury director who each have been delegated such authority from the Board.

Hedging strategy

In order to manage our interest rate profile, we enter into cross-currency and interest rate swap agreements to vary the amounts and periods for which interest rates on borrowings are fixed. The duration of the swap agreements matches the duration of the debt instruments. The majority of the group's long-term borrowings are subject to fixed sterling interest rates after applying the impact of these hedging instruments.

Interest Rate Benchmark reform

The UK Financial Conduct Authority announced on 5 March 2021 that as part of the Interest Rate Benchmark Reform, LIBOR will start being discontinued as a benchmark rate from 31 December 2021. The group has no floating rate debt securities. It has 5 US dollar cross-currency interest rate swaps and 21 sterling interest rate swaps impacted by the IBOR reform maturing between 2028 and 2030. The net exposure of these swaps is nil. The group has adhered to the International Swaps And Derivatives Association, Inc. (ISDA) 2020 IBOR Fall backs Protocol, however, BT has varied some terms on a bilateral basis to apply five-day lookback without observational shift. The impact of any resulting ineffectiveness arising from the discontinuation of LIBOR will be immaterial to the group and will not adversely affect the group's ability to manage interest rate risk.

How do we manage foreign exchange risk?

Management policy

Foreign currency hedging activities protect the group from the risk that changes in exchange rates will adversely affect future net cash flows.

The Board's policy for foreign exchange risk management defines the types of transactions typically covered, including significant operational, funding and currency interest exposures, and the period over which cover should extend for each type of transaction.

The Board has delegated short-term foreign exchange management to the treasury operation and long-term foreign exchange management decisions require further approval from the chief financial officer, the director tax, treasury, insurance and pensions or the group treasury director.

28. Financial instruments and risk management continued

Hedging strategy

A significant proportion of our external revenue and costs arise within the UK and are denominated in sterling. Our non-UK operations generally trade and are funded in their functional currency which limits their exposure to foreign exchange volatility.

We enter into forward currency contracts to hedge foreign currency capital purchases, purchase and sale commitments, interest expense and foreign currency investments. The commitments hedged are principally denominated in US dollar, euro and Indian rupees. As a result, our exposure to foreign currency arises mainly on non-UK subsidiary investments and on residual currency trading flows.

We use cross-currency swaps to swap foreign currency borrowings into sterling. The table below reflects the currency and interest rate profile of our loans and borrowings after the impact of hedging.

	2022			2021		
	Fixed rate interest £m	Floating rate interest £m	Total £m	Fixed rate interest £m	Floating rate interest £m	Total £m
At 31 March						
Sterling	13,515	1,746	15,261	14,129	1,688	15,817
Euro	–	436	436	–	464	464
Other	–	3	3	–	20	20
Total	13,515	2,185	15,700	14,129	2,172	16,301
Ratio of fixed to floating	86%	14%	100%	87%	13%	100%
Weighted average effective fixed interest rate – sterling	3.9%			3.8%		

The floating rate loans and borrowings and committed facilities bear interest rates fixed in advance for periods up to one year, primarily by reference to RPI, CPI and LIBOR which have transitioned onto ARR where applicable.

Sensitivity analysis

The income statement and shareholders' equity are exposed to volatility arising from changes in interest rates and foreign exchange rates. To demonstrate this volatility, management has concluded that the following are reasonable benchmarks for performing sensitivity analysis:

- For interest, a 1% increase in interest rates and parallel shift in yield curves across sterling, US dollar and euro currencies.
- For foreign exchange, a 10% strengthening of sterling against other currencies.

The impact on equity, before tax and excluding any impact related to retirement benefit plans, of a 1% increase in interest rates and a 10% strengthening of sterling against other currencies is as detailed below:

	2022 £m Increase (reduce)	2021 £m Increase (reduce)
At 31 March		
Sterling interest rates	666	816
US dollar interest rates	(429)	(438)
Euro interest rates	(247)	(349)
Sterling strengthening	(203)	(255)

A 1% decrease in interest rates and 10% weakening of sterling against other currencies would have broadly the same impact in the opposite direction.

The impact of a 1% change in interest rates on the group's annual net finance expense and our exposure to foreign exchange volatility in the income statement, after hedging, (excluding translation exposures) would not have been material in FY22 and FY21.

Credit ratings

We continue to target a BBB+/Baa1 credit rating over the cycle, with a BBB floor. We regularly review the liquidity of the group and our funding strategy takes account of medium-term requirements. These include the pension deficit and shareholder distributions.

Our December 2030 bond contains terms that require us to pay higher rates of interest when our credit ratings are below A3 in the case of Moody's or A– in the case of Standard & Poor's (S&P). Additional interest of 0.25% per year accrues for each ratings category downgrade by each agency below those levels effective from the next coupon date following a downgrade. Based on the total notional value of debt outstanding of £2bn at 31 March 2022, our finance expense would increase/decrease by approximately £10m a year if the group's credit rating were to be downgraded/upgraded, respectively, by one credit rating category by both agencies.

Notes to the consolidated financial statements continued

28. Financial instruments and risk management continued

Our credit ratings were as detailed below:

At 31 March	2022		2021	
	Rating	Outlook	Rating	Outlook
Rating agency				
Fitch	BBB	Stable	BBB	Stable
Moody's	Baa2	Negative	Baa2	Negative
Standard & Poor's	BBB	Stable	BBB	Stable

How do we manage liquidity risk?

Management policy

We maintain liquidity by entering into short and long-term financial instruments to support operational and other funding requirements, determined by using short and long-term cash forecasts. These forecasts are supplemented by a financial headroom analysis which is used to assess funding adequacy for at least a 12-month period. On at least an annual basis the Board reviews and approves the long-term funding requirements of the group and on an ongoing basis considers any related matters. We manage refinancing risk by limiting the amount of borrowing that matures within any specified period and having appropriate strategies in place to manage refinancing needs as they arise. The maturity profile of our loans and borrowings at 31 March 2022 is disclosed in note 26. We have no term debt maturities in FY23.

Our treasury operation reviews and manages our short-term requirements within the parameters of the policies set by the Board. We hold cash, cash equivalents and current investments in order to manage short-term liquidity requirements. At 31 March 2022 we had undrawn committed borrowing facilities of £2.1bn (FY21: £2.1bn) maturing in March 2027.

In the UK, the group has arranged for funders to offer a supplier financing scheme to the group's suppliers. This enables suppliers who sign up to the arrangements to sell their invoices to the funders and to be paid earlier than the invoice due date. The group assesses the arrangement against indicators to assess if debts which vendors have sold to the funder under the supplier financing scheme continue to meet the definition of trade payables or should be classified as borrowings. At 31 March 2022 the payables met the criteria of trade payables.

Interest Rate Benchmark reform

The group's syndicated Revolving Credit Facility (undrawn at 31st March 2022), previously referring to IBOR rates, has been updated to reference alternative benchmark rates for sterling (Sonia) and US dollars (SOFR). Notional cash pooling arrangements and overdraft arrangements have transitioned onto ARRs where applicable. Any outstanding group contracts with reference to LIBOR benchmarks include provisions for calculation of interest based on alternative benchmark rates.

The following table provides an analysis of the remaining cash flows including interest payable for our non-derivative financial liabilities on an undiscounted basis, which may therefore differ from both the carrying value and fair value.

Non-derivative financial liabilities At 31 March 2022	Loans and other borrowings £m	Interest on loans and other borrowings £m	Trade and other payables £m	Provisions £m	Lease liabilities £m	Total £m
Due within one year	640	568	5,224	4	788	7,224
Between one and two years	935	564	–	4	784	2,287
Between two and three years	1,415	538	–	3	729	2,685
Between three and four years	2,532	515	–	–	626	3,673
Between four and five years	379	477	–	–	589	1,445
After five years	10,041	2,809	–	–	2,983	15,833
	15,942	5,471	5,224	11	6,499	33,147
Interest payments not yet accrued	–	(5,238)	–	–	–	(5,238)
Fair value adjustment	10	–	–	–	–	10
Impact of discounting	–	–	–	–	(739)	(739)
Carrying value on the balance sheet^{a,b}	15,952	233	5,224	11	5,760	27,180

28. Financial instruments and risk management continued

Non-derivative financial liabilities At 31 March 2021	Loans and other borrowings £m	Interest on loans and other borrowings £m	Trade and other payables £m	Provisions £m	Lease liabilities £m	Total £m
Due within one year	692	528	5,153	1	724	7,098
Between one and two years	1,427	528	–	3	791	2,749
Between two and three years	915	515	–	4	762	2,196
Between three and four years	1,427	489	–	2	710	2,628
Between four and five years	2,529	467	–	2	592	3,590
After five years	9,463	3,076	–	–	3,391	15,930
	16,453	5,603	5,153	12	6,970	34,191
Interest payments not yet accrued	–	(5,384)	–	–	–	(5,384)
Fair value adjustment	13	–	–	–	–	13
Impact of discounting	–	–	–	–	(818)	(818)
Carrying value on the balance sheet^{a,b}	16,466	219	5,153	12	6,152	28,002

a Foreign currency-related cash flows were translated at closing foreign exchange rates as at the relevant reporting date. Future variable interest cash flows were calculated using the most recent interest or indexation rates at the relevant balance sheet date.

b The carrying amount of trade and other payables excludes £624m (FY21: £682m) of non-current trade and other payables which relates to non-financial liabilities, and £918m (FY21: £827m) of other taxation and social security and deferred income.

Trade and other payables are held at amortised cost. The carrying amount of these balances approximates to fair value due to the short maturity of amounts payable.

The following table provides an analysis of the contractually agreed cash flows in respect of the group's derivative financial instruments. Cash flows are presented on a net or gross basis in accordance with settlement arrangements of the instruments.

Derivative financial liabilities At 31 March 2022	Derivatives – Analysed by earliest payment date ^a				Derivatives – Analysis based on holding instrument to maturity			
	Net settled £m	Gross settled outflows £m	Gross settled inflows £m	Total £m	Net settled £m	Gross settled outflows £m	Gross settled inflows £m	Total £m
Due within one year	300	940	(873)	367	77	940	(873)	144
Between one and two years	247	1,615	(1,508)	354	77	1,615	(1,508)	184
Between two and three years	18	1,679	(1,566)	131	77	1,679	(1,566)	190
Between three and four years	17	736	(685)	68	77	736	(685)	128
Between four and five years	17	511	(513)	15	77	511	(513)	75
After five years	65	4,789	(4,725)	129	279	4,789	(4,725)	343
Total^b	664	10,270	(9,870)	1,064	664	10,270	(9,870)	1,064

Derivative financial liabilities At 31 March 2021	Derivatives – Analysed by earliest payment date ^a				Derivatives – Analysis based on holding instrument to maturity			
	Net settled £m	Gross settled outflows £m	Gross settled inflows £m	Total £m	Net settled £m	Gross settled outflows £m	Gross settled inflows £m	Total £m
Due within one year	130	1,365	(1,274)	221	90	1,365	(1,274)	181
Between one and two years	283	1,248	(1,166)	365	90	1,248	(1,166)	172
Between two and three years	268	1,663	(1,541)	390	90	1,663	(1,541)	212
Between three and four years	28	1,646	(1,540)	134	90	1,646	(1,540)	196
Between four and five years	28	703	(652)	79	90	703	(652)	141
After five years	114	4,439	(4,266)	287	401	4,439	(4,266)	574
Total^b	851	11,064	(10,439)	1,476	851	11,064	(10,439)	1,476

a Certain derivative financial instruments contain break clauses whereby either the group or bank counterparty have the right to terminate the swap on certain dates. If the break clause was exercised, the mark to market position would be settled in cash.

b Foreign currency-related cash flows were translated at closing foreign exchange rates as at the relevant reporting date. Future variable interest rate cash flows were calculated using the most recent rate applied at the relevant balance sheet date.

Notes to the consolidated financial statements continued

28. Financial instruments and risk management continued

How do we manage credit risk?

Management policy

Our exposure to credit risk arises from financial assets transacted by the treasury operation (primarily derivatives, investments, cash and cash equivalents) and from trading-related receivables.

For treasury-related balances, the Board's defined policy restricts exposure to any one counterparty by setting credit limits based on the credit quality as defined by Moody's and Standard & Poor's. The minimum credit ratings permitted with counterparties in respect of new transactions are A3/A- for long-term and P1/A1 for short-term investments. If counterparties in respect of existing transactions fall below the permitted criteria we will take action where appropriate.

The treasury operation continuously reviews the limits applied to counterparties and will adjust the limit according to the nature and credit standing of the counterparty, and in response to market conditions, up to the maximum allowable limit set by the Board.

Operational management policy

Our credit policy for trading-related financial assets is applied and managed by each of the customer-facing units (CFUs) to ensure compliance. The policy requires that the creditworthiness and financial strength of customers are assessed at inception and on an ongoing basis. Payment terms are set in accordance with industry standards. Where appropriate, we may minimise risks by requesting securities such as deposits, guarantees and letters of credit. We take proactive steps including constantly reviewing credit ratings of counterparties to minimise the impact of adverse market conditions on trading-related financial assets.

Exposures

The maximum credit risk exposure of the group's financial assets at the balance sheet date is as follows:

At 31 March	Notes	2022 £m	2021 £m
Derivative financial assets		1,091	1,235
Investments	24	2,713	3,683
Trade and other receivables ^a	17	1,489	1,339
Contract assets	5	1,915	1,859
Cash and cash equivalents	25	777	1,000
Total		7,985	9,116

a The carrying amount excludes £337m (FY21: £314m) of non-current trade and other receivables which relate to non-financial assets, and £1,135m (FY21: £1,918m) of prepayments, deferred contract costs and other receivables.

The credit quality and credit concentration of cash equivalents, current asset investments and derivative financial assets are detailed in the tables below. Where the opinion of Moody's and Standard & Poor's (S&P) differ, the lower rating is used.

Moody's/S&P credit rating of counterparty	2022 £m	2021 £m
Aa2/AA and above	1,946	3,571
Aa3/AA-	1,118	656
A1/A+	768	775
A2/A	269	334
A3/A-	122	115
Baa1/BBB+	-	65
Baa2/BBB and below	-	-
Total^a	4,223	5,516

a We hold cash collateral of £555m (FY21: £588m) in respect of derivative financial assets with certain counterparties.

The concentration of credit risk for our trading balances is provided in note 17, which analyses outstanding balances by CFU. Where multiple transactions are undertaken with a single financial counterparty or group of related counterparties, we enter into netting arrangements to reduce our exposure to credit risk by making use of standard International Swaps and Derivatives Association (ISDA) documentation. We have also entered into credit support agreements with certain swap counterparties whereby, on a daily, weekly and monthly basis, the fair value position on notional £2,024m of long dated cross-currency swaps and interest rate swaps is collateralised.

28. Financial instruments and risk management continued

Offsetting of financial instruments

The table below shows our financial assets and liabilities that are subject to offset in the group's balance sheet and the impact of enforceable master netting or similar agreements.

Financial assets and liabilities At 31 March 2022	Amounts presented in the balance sheet £m	Related amounts not set off in the balance sheet		
		Right of set off with derivative counterparties £m	Cash collateral £m	Net amount £m
Derivative financial assets	1,091	(431)	(555)	105
Derivative financial liabilities	(870)	431	67	(372)
Total	221	–	(488)	(267)

Financial assets and liabilities At 31 March 2021	Amounts presented in the balance sheet £m	Related amounts not set off in the balance sheet		
		Right of set off with derivative counterparties £m	Cash collateral £m	Net amount £m
Derivative financial assets	1,235	(585)	(588)	62
Derivative financial liabilities	(1,283)	585	82	(616)
Total	(48)	–	(506)	(554)

Derivatives and hedging

We use derivative financial instruments mainly to reduce exposure to foreign exchange and interest rate risks. Derivatives may qualify as hedges for accounting purposes if they meet the criteria for designation as cash flow hedges or fair value hedges in accordance with IFRS 9.



Significant accounting policies that apply to derivatives and hedge accounting

All of our derivative financial instruments are held at fair value on the balance sheet.

Derivatives designated in a cash flow hedge

The group designates certain derivatives in a cash flow hedge relationship. Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedge. To qualify for hedge accounting, hedge documentation must be prepared at inception, the hedge must be in line with BT's risk management strategy and there must be an economic relationship based on the currency, amount and timing of the respective cash flows of the hedging instrument and hedged item. This is assessed at inception and in subsequent periods in which the hedge remains in operation. Hedge accounting is discontinued when it is no longer in line with BT's risk management strategy or if it no longer qualifies for hedge accounting.

The group targets a one-to-one hedge ratio. The economic relationship between the hedged item and the hedging instrument is assessed on an ongoing basis. Ineffectiveness can arise from subsequent change in the forecast transactions as a result of altered timing, cash flows or value.

When a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. For cash flow hedges of recognised assets or liabilities, the associated cumulative gain or loss is removed from equity and recognised in the same line of the income statement and in the same period or periods that the hedged transaction affects the income statement. Any ineffectiveness arising on a cash flow hedge is recognised immediately in the income statement.

Other derivatives

Our policy is not to use derivatives for trading purposes. However, due to the complex nature of hedge accounting, some derivatives may not qualify for hedge accounting, or may be specifically not designated as a hedge because natural offset is more appropriate. These derivatives are classified as fair value through profit and loss and are recognised at fair value. Any direct transaction costs are recognised immediately in the income statement. Gains and losses on re-measurement are recognised in the income statement in the line that most appropriately reflects the nature of the item or transaction to which they relate.

Where the fair value of a derivative contract at initial recognition is not supported by observable market data and differs from the transaction price, a day one gain or loss will arise which is not recognised in the income statement. Such gains and losses are deferred and amortised to the income statement based on the remaining contractual term and as observable market data becomes available.

The fair values of outstanding swaps and foreign exchange contracts are estimated using discounted cash flow models and market rates of interest and foreign exchange at the balance sheet date.

Notes to the consolidated financial statements continued

28. Financial instruments and risk management continued

	Current asset £m	Non- current asset £m	Current liability £m	Non- current liability £m
At 31 March 2022				
Designated in a cash flow hedge	77	878	25	712
Other	11	125	26	107
Total derivatives	88	1,003	51	819
	Current asset £m	Non- current asset £m	Current liability £m	Non- current liability £m
At 31 March 2021				
Designated in a cash flow hedge	56	950	58	1,023
Other	14	215	30	172
Total derivatives	70	1,165	88	1,195

All derivative financial instruments are categorised at Level 2, with the exception of the energy contracts which are categorised at Level 3 of the fair value hierarchy as defined in note 24.

Instruments designated in a cash flow hedge include interest rate swaps and cross-currency swaps hedging euro and US dollar-denominated borrowings. Forward currency contracts are taken out to hedge step-up interest on currency denominated borrowings relating to the group's 2030 US dollar bond. The hedged cash flows will affect the group's income statement as interest and principal amounts are repaid over the remaining term of the borrowings (see note 26).

We hedge forecast foreign currency purchases, principally denominated in US dollar, euro and Indian rupees 12 months forward with certain specific transactions hedged further forward. The related cash flows are recognised in the income statement over this period.

The amounts related to items designated as hedging instruments were as follows:

Hedged items At 31 March 2022	Notional principal £m	Asset £m	Liability £m	Balance in cash flow hedge related reserves (gain)/loss £m	Fair value (gain)/loss recognised in OCI £m	Amount recycled from cash flow hedge related reserves to P&L £m
Sterling, euro and US dollar denominated borrowings ^a	11,688	889	(731)	(26)	(83)	61
Step up interest on the 2030 US dollar bond ^b	122	5	–	(29)	(6)	3
Foreign currency purchases, principally denominated in US dollar, euro and Indian rupees ^c	946	30	(3)	(21)	(51)	(10)
Energy contracts ^d		31	(3)	(28)	(64)	–
Total cash flow hedges	12,756	955	(737)	(104)	(204)	54
Deferred tax		–	–	16		
Derivatives not in a designated hedge relationship		136	(133)	–		
Carrying value on the balance sheet		1,091	(870)	(88)		

a Sterling, euro and US dollar denominated borrowings are hedged using cross-currency swaps and interest rate swaps. Amounts recycled to profit and loss are presented within operating costs and finance expense.

b Step up interest on US dollar denominated borrowings are hedged using forward currency contracts. Amounts recycled to profit and loss are presented within finance expense.

c Foreign currency purchases, principally denominated in US dollar, euro and Indian rupees are hedged using forward currency contracts. Amounts recycled to profit and loss are presented within cost of sales, operating costs or fixed assets, in line with the underlying hedged item.

d Energy contracts are hedged using contracts for difference and virtual power purchase agreements in order to provide long term power cost certainty. Amounts recycled to profit and loss are presented within operating costs.

28. Financial instruments and risk management continued

Hedged items At 31 March 2021	Notional principal £m	Asset £m	Liability £m	Balance in cash flow hedge related reserves (gain)/loss £m	Fair value (gain)/loss recognised in OCI £m	Amount recycled from cash flow hedge related reserves to P&L £m
Sterling, euro and US dollar denominated borrowings ^a	12,302	999	(974)	(3)	1,349	(862)
Step up interest on the 2030 US dollar bond ^b	147	–	(7)	(26)	16	3
Foreign currency purchases, principally denominated in US dollar, euro and Indian rupees ^c	2,145	7	(64)	40	88	9
Energy contracts ^d	–	–	(36)	36	15	–
Total cash flow hedges	14,594	1,006	(1,081)	47	1,468	(850)
Deferred tax		–	–	(16)		
Derivatives not in a designated hedge relationship		229	(202)	–		
Carrying value on the balance sheet		1,235	(1,283)	31		

a Sterling, euro and US dollar denominated borrowings are hedged using cross-currency swaps and interest rate swaps. Amounts recycled to profit and loss are presented within operating costs and finance expense.

b Step up interest on US dollar denominated borrowings are hedged using forward currency contracts. Amounts recycled to profit and loss are presented within finance expense.

c Foreign currency purchases, principally denominated in US dollar, euro and Indian rupees are hedged using forward currency contracts. Amounts recycled to profit and loss are presented within cost of sales, operating costs or fixed assets, in line with the underlying hedged item.

d Energy contracts are hedged using contracts for difference and virtual power purchase agreements in order to provide long term power cost certainty. Amounts recycled to profit and loss are presented within operating costs.

With the exception of one hedge which became ineffective due to divestment activity (see note 9), all cash flow hedges were fully effective in the period.

29. Other reserves

	Other comprehensive income					
	Capital redemption reserve £m	Cash flow reserve ^a £m	Fair value reserve £m	Cost of hedging reserve ^c £m	Translation reserve ^{d,g} £m	Total £m
At 1 April 2020	27	476	–	–	616	1,119
Exchange differences ^e	–	–	–	–	(189)	(189)
Net fair value gain (loss) on cash flow hedges	–	(1,481)	–	13	–	(1,468)
Movements in relation to cash flow hedges recognised in income and expense ^f	–	804	–	46	–	850
Tax recognised in other comprehensive income	–	111	–	–	22	133
Transfer to realised profit	–	–	–	–	(9)	(9)
At 31 March 2021	27	(90)	–	59	440	436
Exchange differences ^e	–	–	–	–	65	65
Net fair value gain (loss) on cash flow hedges	–	59	–	145	–	204
Movements in relation to cash flow hedges recognised in income and expense ^f	–	(86)	–	32	–	(54)
Fair value movement on assets at fair value through other comprehensive income	–	–	6	–	–	6
Tax recognised in other comprehensive income	–	(31)	–	–	–	(31)
Transfer to realised profit ^b	–	–	(7)	–	–	(7)
At 31 March 2022	27	(148)	(1)	236	505	619

a The cash flow reserve is used to record the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

b Realised profit includes profit on disposal of investments held at fair value through other comprehensive income.

c The cost of hedging reserve reflects the gain or loss on the portion excluded from the designated hedging instrument that relates to the currency basis element of our cross currency swaps and forward points on certain foreign exchange contracts. It is initially recognised in other comprehensive income and accounted for similarly to gains or losses in the cash flow reserve.

d The translation reserve is used to record cumulative translation differences on the net assets of foreign operations. The cumulative translation differences are recycled to the income statement on disposal of the foreign operation.

e Excludes £1m (FY21: £nil) of exchange differences in relation to retained earnings attributed to non-controlling interests.

f Movements in cash flow hedge related reserves recognised in income and expense include a net charge to other comprehensive income of £126m (FY21: restated credit of £778m) which have been reclassified to operating costs, and a net credit to the cash flow reserve of £72m (FY21: credit of £72m) which have been reclassified to finance expense (see note 27).

g Included within the £65m movement in translation reserve is £1m (FY21: £23m) which relate to disposals (see note 23).

Notes to the consolidated financial statements continued

30. Related party transactions

Key management personnel comprise executive and non-executive directors and members of the Executive Committee. Compensation of key management personnel is disclosed in note 6.

Amounts paid to the group's retirement benefit plans are set out in note 20.

Transactions with associates and joint ventures are shown below:

At 31 March	2022 £m	2021 £m
Sales of services to associates and joint ventures	5	9
Purchases from associates and joint ventures	44	51
Amounts receivable from associates and joint ventures	2	3
Amounts payable to associates and joint ventures	1	5

Other related party transactions include the purchase of energy from an entity owned by the BT Pension Scheme. Total purchases during the year were £12m (FY21: £13m). £1m was due to the other party as at 31 March 2022 (FY21: £2m). The balance is unsecured and no guarantees have been given.

31. Financial commitments

Financial commitments were as follows:

At 31 March	2022 £m	2021 £m
TV programme rights commitments	997	1,691
Capital commitments	1,596	1,370
Other commitments	295	263
Total	2,888	3,324

TV programme rights commitments, mainly relating to football broadcast rights, are those for which the licence period has not yet started. A sale of our BT Sport operations to which these commitments relate is considered highly probable. The group is contractually committed to future rights payments until the sale completes at which point the commitment will transfer to the new established joint venture. Further details on the transaction and held for sale assets and liabilities are included in note 23.

Other than as disclosed below and in note 19, there were no contingent liabilities or guarantees at 31 March 2022 other than those arising in the ordinary course of the group's business and on these no material losses are anticipated. We have insurance cover to certain limits for major risks on property and major claims in connection with legal liabilities arising in the course of our operations. Otherwise, the group generally carries its own risks.

Commitments and guarantees

BT plc

From March 2019 a formal guarantee was put in place by BT Group plc to fully and unconditionally guarantee the obligations of its wholly owned subsidiary British Telecommunications plc ("BT plc") under its corporate bonds. This guarantee has been given in respect of all bonds issued since that date and was retrospectively applied to bonds issued prior to that date. It applies to all bonds issued in BT plc's Yankee, Euro Medium Term Note and hybrid bond programmes, and under the BT plc £600m 5.75% bonds due in 2028.

Legal and regulatory proceedings

See note 19 for contingent liabilities associated with legal and regulatory proceedings.

32. Post balance sheet events

BT Sport

In May 2022, we reached an agreement with Warner Bros. Discovery (Discovery) to create a sports joint venture (JV) combining BT Sport and Discovery's Eurosport UK business into a separate legal entity with both BT and Discovery each holding a 50% interest and equal voting rights. The production and operational assets of BT Sport will transfer to, and become a wholly owned subsidiary of, Discovery who will manage and operate the production and distribution of the sport content. Discovery will have the option to acquire BT's 50% interest in the JV at specified points during the first four years of the JV. At completion of the transaction, BT is expected to lose control of the BT Sport operations and the group's interest in the combined business is expected to be classified as a Joint Venture. BT will enter into a distribution agreement with the JV to procure the sport content required to continue to supply our existing broadband, TV and mobile customers. BT's agreement with the JV will extend beyond 2030, and for the first four years includes a minimum revenue guarantee of approximately £500m per annum, after which the agreement will change to a fully variable arrangement.

The transaction is subject to regulatory approval, but it is expected to conclude by the end of 2022. The transaction meets the held for sale criteria per IFRS 5 and accordingly the asset and liabilities of the BT Sport disposal group have been classified as held for sale at 31 March 2022. Further details are provided in note 23.

Financial Statements of BT Group plc

BT Group plc company balance sheet

Registered number 4190816

At 31 March	Note	2022 £m	2021 £m
Non-current assets			
Investment in subsidiary undertaking	2	11,201	11,096
Other investments ^a		585	972
		11,786	12,068
Current assets			
Cash and cash equivalents		5	3
		5	3
Current liabilities			
Trade and other payables ^b		32	27
		32	27
Total assets less current liabilities		11,759	12,044
Non-current liabilities			
Trade and other payables ^b		26	–
		26	–
Equity			
Ordinary shares		499	499
Share premium		1,051	1,051
Capital redemption reserve		27	27
Own shares		(274)	(143)
Profit and loss account ^c		10,430	10,610
Total equity		11,733	12,044
		11,759	12,044

a Other investments consists of loan to group undertakings of £580m (FY21: £971m) and accrued interest of £5m (FY21:£1m). The loan attracts interest of LIBOR plus 37.5 basis points and will transition onto ARR after the balance sheet date (FY21: LIBOR plus 37.5 basis points). The loan is measured at amortised cost using the effective interest rate method. The expected credit loss provision against long-term loan to group undertakings is immaterial. In the 2021 Annual Report, this balance sheet caption was labelled 'Trade and other receivables'. We have opted to change the name to 'Other investments' as it better represents the loan to group undertaking and aligns to how it is classified in the British Telecommunication plc Annual Report.

b Current trade and other payables consists of loans from group undertakings of £16m (FY21: £10m) and other creditors of £16m (FY21: £17m). The non-current trade and other payables comprises the obligation to purchase own shares into trust via a forward contract.

c As permitted by Section 408(3) of the Companies Act 2006, no profit and loss account of the company is presented. The profit for the financial year, dealt with in the profit and loss account of the company was £2m (FY21: £6m).

The financial statements of the company on **pages 199 to 202** were approved by the Board of Directors on 11 May 2022 and were signed on its behalf by:

Adam Crozier
Chairman

Philip Jansen
Chief Executive

Simon Lowth
Chief Financial Officer

BT Group plc company statement of changes in equity

	Note	Called up share capital ^a £m	Share premium account £m	Capital redemption reserve £m	Merger reserve £m	Own shares ^b £m	Profit and loss account ^{b,c} £m	Total £m
At 1 April 2020		499	1,051	27	1,574	(237)	9,065	11,979
Profit for the financial year		–	–	–	–	–	6	6
Transfer to realised profit	3	–	–	–	(1,574)	–	1,574	–
Capital contribution in respect of share-based payments		–	–	–	–	–	72	72
Net buyback of own shares		–	–	–	–	94	(107)	(13)
At 31 March 2021		499	1,051	27	–	(143)	10,610	12,044
Profit for the financial year		–	–	–	–	–	2	2
Dividends paid		–	–	–	–	–	(227)	(227)
Unclaimed dividends over 10 years		–	–	–	–	–	2	2
Share-based payments		–	–	–	–	–	3	3
Capital contribution in respect of share-based payments		–	–	–	–	–	105	105
Net buyback of own shares		–	–	–	–	(131)	(65)	(196)
At 31 March 2022		499	1,051	27	–	(274)	10,430	11,733

a The allotted, called up and fully paid ordinary share capital of the company at 31 March 2022 was £499m (31 March 2021: £499m), representing 9,968,127,681 (31 March 2021: 9,968,127,681) ordinary shares of 5p each.

b In FY22, 19,672,628 shares (FY21: 44,573,595) were issued from Own shares to satisfy obligations under employee share schemes and executive share awards at a cost of £43m (FY21: £108m). At 31 March 2022, 41,429,938 shares (FY21: 50,724,972) with an aggregate nominal value of £2m (FY21: £3m) were held at cost as treasury shares and 94,120,883 shares (FY21: 9,172,675) with an aggregate nominal value of £5m (FY21: £nil) were held in the Trust.

c As permitted by Section 408(3) of the Companies Act 2006, no profit and loss account of the company is presented. The profit for the financial year, dealt with in the profit and loss account of the company was £2m (FY21: £6m).

Notes to the company financial statements

1. BT Group plc accounting policies

Principal activity

The principal activity of the company is to act as the ultimate holding company of the BT group.

Accounting basis

As used in these financial statements and associated notes, the term 'company' refers to BT Group plc (a public company limited by shares). These separate financial statements are prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of UK-adopted international accounting standards, but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

Financial statements

The financial statements are prepared on a going concern basis and under the historical cost convention. Refer to [page 134](#) for further details of this assessment.

As permitted by Section 408(3) of the Companies Act 2006, the company's profit and loss account has not been presented.

New and amended accounting standards effective during the year

There have been no new or amended accounting standards or interpretations adopted during the year that have a significant impact on the financial statements.

Exemptions

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to business combinations, share-based payments, non-current assets held for sale, financial instruments, capital management, and presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions. The company intends to continue to take advantage of these exemptions in future years. Further detail is provided below.

Where required, equivalent disclosures have been given in the consolidated financial statements of BT Group plc.

The BT Group plc consolidated financial statements for the year ended 31 March 2022 contain a consolidated cash flow statement. Consequently, as permitted by IAS 7 'Statement of Cash flow', the company has not presented its own cash flow statement.

The BT Group plc consolidated financial statements for the year ended 31 March 2022 contain related party disclosures. Consequently, the company has taken advantage of the exemption in IAS 24, 'Related Party Disclosures' not to disclose transactions with other members of the BT Group.

The BT Group plc consolidated financial statements for the year ended 31 March 2022 contain financial instrument disclosures which comply with IFRS 7, 'Financial Instruments: Disclosures'. Consequently, the company is exempt from the disclosure requirements of IFRS 7 in respect of its financial instruments.

Investment in subsidiary undertaking

Investment in subsidiary undertaking is stated at cost and reviewed for impairment if there are indicators that the carrying value may not be recoverable. An impairment loss is recognised to the extent that the carrying amount cannot be recovered either by selling the asset or by continuing to hold the asset and benefiting from the net present value of the future cash flows of the investment.

Taxation

Full provision is made for deferred taxation on all temporary differences which have arisen but not reversed at the balance sheet date. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that there will be sufficient taxable profits from which the underlying timing differences can be deducted. The deferred tax balances are not discounted.

Dividends

Dividend distributions are recognised as a liability in the year in which the dividends are approved by the company's shareholders. Interim dividends are recognised when they are paid; final dividends when authorised in general meetings by shareholders. Dividend income is recognised on receipt.

Share capital

Ordinary shares are classified as equity. Repurchased shares of the company are recorded in the balance sheet as part of Own shares and presented as a deduction from shareholders' equity at cost.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and current balances with banks and similar institutions, which are readily convertible to cash and are subject to insignificant risk of changes in value and have an original maturity of three months or less.

Share-based payments

The company does not incur a charge for share-based payments. However, the issuance by the company of share options and awards to employees of its subsidiaries represents additional capital contributions to its subsidiaries. An addition to the company's investment in subsidiaries is recorded with a corresponding increase in equity shareholders' funds. The additional capital contribution is determined based on the fair value of options and awards at the date of grant and is recognised over the vesting period.

2. Investment in subsidiary undertaking

Cost	Total £m
At 1 April 2020	11,024
Additions	72
At 31 March 2021	11,096
Additions	105
At 31 March 2022	11,201

Additions of £105m (FY21: £72m) comprise capital contributions in respect of share-based payments.

The company held a 100% investment in BT Group Investments Limited, a company registered in England and Wales, throughout FY22 and FY21.

Notes to the company financial statements continued

3. Merger reserve

On 29 January 2016, the company issued 1,594,900,429 ordinary shares of 5p at 470.70p per share resulting in a total of £80m being credited to the share capital.

These shares were used as part consideration for the acquisition of EE, which completed on 29 January 2016. As a result of this transaction, a merger reserve was created of £7,424m net of £3m issue costs. The acquisition of EE was structured by way of a share-for-share exchange. This transaction fell within the provisions of Section 612 of the Companies Act 2006 (merger relief) such that no share premium was recorded in respect of the shares issued. The company chose to record its investment in EE at fair value and therefore recorded a merger reserve equal to the value of the share premium which would have been recorded had Section 612 of the Companies Act 2006 not been applicable i.e. equal to the difference between the fair value of EE and the aggregate nominal value of the shares issued).

This merger reserve was initially considered unrealised on the basis it was represented by the investment in EE. This was not considered to represent qualifying consideration (in accordance with Tech 02/10 (Guidance on the determination of realised profits and losses in the context of distributions under the Companies Act 2006)), as superseded by Tech 02/17 (Guidance on realised and distributable profits under the Companies Act 2006).

Immediately following the acquisition of EE, the company's investment in EE was transferred to the company's subsidiary, BT plc, in exchange for an intercompany loan. To the extent the loan is settled in qualifying consideration, the related proportion of the merger reserve is considered realised. Hence the merger reserve is an unrealised reserve until it is realised by the settlement of the intercompany loan by qualifying consideration.

During 2020/21, the remaining £1,574m (2019/20: £1,575m) of merger reserve was transferred to realised profit following the settlement of an intercompany loan by qualifying consideration. The merger reserve is now nil.

4. Other information

Dividends

An interim dividend of 2.31p per share amounting to £227m was paid on 7 February 2022. A final dividend of 5.39p per share amounting to approximately £528m is proposed in respect of the year ended 31 March 2022 (FY21: no interim or final dividend paid).

Employees and directors

The chairman and the executive and non-executive directors of BT Group plc were the only employees and directors of the company during FY22 and FY21. The costs relating to qualifying services provided to the company's principal subsidiary, British Telecommunications plc, are recharged to that company.

Subsidiaries

Company name	Group interest in allotted capital ^a	Share class
Belgium		
Telecomlaan 9, 1831 Diegem, Belgium		
BT Global Services Belgium BV	100%	ordinary
BT Professional Services (Holdings) N.V.	100%	ordinary
Global Security Europe Limited – Belgian Branch ^b	100%	–
Rue de L'Aéropostale 8, 4460 Grâce-Hollogne, Belgium		
IP Trade SA	100%	ordinary
Bermuda		
Century House, 16 Par-la-Ville Road, Hamilton, HM08, Bermuda		
Communications Global Network Services Limited	100%	ordinary
Bolivia		
Avda. 6 de Agosto N° 2700, Torre Empresarial CADECO, Piso 4, La Paz, Bolivia		
BT Solutions Limited Sucursal Bolivia ^b	100%	–
Bosnia and Herzegovina		
Trg Heroja 10/1, Sarajevo, 71000, Bosnia and Herzegovina		
BTIH Teleconsult Društvo sa organičenom odgovornošću za posredovanje i zastupanje d.o.o. Sarajevo	100%	–
Botswana		
Deloitte House, Fairgrounds Office Park, Plot 64518, Gaborone, PO BOX 1839, Botswana		
BT Global Services Botswana (Proprietary) Limited	100%	ordinary
Brazil		
Avenida Das Nações Unidas, 4777 – 14 andar, São Paulo, SP, Brazil		
BT Communications do Brasil Limitada	100%	quotas
Avenida Das Nações Unidas, 4777 – 14 andar, Pinheiros, São Paulo, SP, 05477-000, Brazil		
BT Global Communications do Brasil Limitada	100%	quotas
Bulgaria		
51B Bulgaria Blvd., fl. 4, Sofia, 1404, Bulgaria		
BT Bulgaria EOOD	100%	ordinary
Canada		
Regus Brookfield Place, 161 Bay Street 26th and 27th Floors, Toronto ON M5J 2S1, Canada		
BT Canada Inc.	100%	common

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Group

Company name	interest in allotted capital ^a	Share class
Czech Republic		
Pujmanov� 1753 / 10a, Nusle, 140 00, Prague, 4, Czech Republic		
BT Limited, organizacni slozka ^b	100%	–
BT Global Europe B.V., od�t�pn� z�vod ^b	100%	–
Denmark		
Havneholmen 29, 1561, Kobenhavn V, Copenhagen, Denmark		
BT Denmark ApS	100%	ordinary
Dominican Republic		
Av. Abraham Lincoln Esq. Jose Amado Soler, Edif. Progreso, Local 3-A, Sector Ens. Serralles, Santo Domingo, Dominican Republic		
BT Dominican Republic, S. A.	100%	ordinary
Ecuador		
Av. Amazonas N21-252 y Carri�n, Edificio Londres, 4� Piso, Quito, Ecuador		
BT Solutions Limited (Sucursal Ecuador) ^b	100%	–
Egypt		
95 C st. El Sayed El Mirghany, Heliopolis Cairo, Egypt		
BT Telecom Egypt LLC	100%	stakes
El Salvador		
Edificio Avante Penthouse Oficina, 10-01 Y 10-03 Urbanizacion, Madre Selva, Antiguo Cuscatlan, La Libertad, El Salvador		
BT El Salvador, Limitada de Capital Variable	100%	ordinary
Estonia		
A.H. Tammsaare tee 47, Tallinn, 11316, Estonia		
BT Solutions Limited Eesti Filiaal ^b	100%	–
Finland		
Mannerheimv�gen 12 B 6, 00100 Helsinki, Finland		
BT Nordics Finland Oy	100%	ordinary
France		
Tour Ariane, 5 place de la Pyramide, La Defense Cedex, 92088 PARIS, France		
BT France S.A.S.	100%	ordinary
Germany		
Barthstra� 4, 80339, Munich, Germany		
BT (Germany) GmbH & Co. oHG	100%	ordinary
BT Deutschland GmbH	100%	ordinary
BT Garrick GmbH	100%	ordinary
Frankfurter Stra� 21-25, Eschborn, 65760, Frankfurt am Main, Germany		
IP Trade Networks GmbH	100%	ordinary

Company name	Group interest in allotted capital ^a	Share class
Widdersdorfer Strasse 252, 50933, Cologne, Germany		
Global Security Europe Limited – Germany Branch ^b	100%	–
Ghana		
5th Floor, Vivo Place, Cantonments City, Rangoon Lane, P.O. Box MB 595, Accra, Ghana		
BT Ghana Limited	100%	ordinary
Greece		
75 Patision Street, Athens, 10434, Greece		
BT Solutions Limited– Greek Branch ^b	100%	–
Guatemala		
5ta avenida 5-55 zona 14, Edificio Europlaza World Business Center, Torre IV, nivel 7, oficina 702, Guatemala City, Guatemala		
BT Guatemala S.A.	100%	unique
Honduras		
Colonia Pueblo Nuevo, Edificio Torre Morazán, Torre No. 1, Piso 9, Municipio del Distrito Central, Departamento de, Francisco Morazán, Tegucigalpa, 10918, Honduras		
BT Sociedad De Responsabilidad Limitada	100%	–
Hong Kong		
38th Floor Dorset House, Taikoo Place, 979 King's Road, Island East, Quarry Bay, Hong Kong		
BT Hong Kong Limited	100%	ordinary
Infonet China Limited	100%	ordinary
Hungary		
Budafoki U. 91-93, Budapest, 1117, Hungary		
BT Global Europe B.V. Magyarorszag-i Fióktelepe ^b	100%	–
BT Limited Magyarorszag-i Fióktelepe ^b	100%	–
BT ROC Kft	100%	business
India		
11th Floor, Eros Corporate Tower, Opp. International Trade Tower, Nehru Place, New Delhi, 110019, India		
BT (India) Private Limited	100%	ordinary
BT e-Serv (India) Private Limited	100%	equity
BT Global Business Services Private Limited	100%	ordinary
BT Global Communications India Private Limited	100%	ordinary
BT Telecom India Private Limited	100%	ordinary
A-47, Hauz Khas, New Delhi, Delhi-DL, 110016, India		
Orange Services India Private Limited	100%	ordinary

Company name	Group interest in allotted capital ^a	Share class
Indonesia		
20/F of IWG Spaces at World Trade Centre 3, Jl. Jend. Sudirman, RT.4/RW.2, Karet Kuningan, Kota Administrasi Jakarta Selatan, Jakarta, 12920, Indonesia		
PT BT Indonesia	100%	ordinary
PT BT Communications Indonesia	95%	ordinary
Isle of Man		
Third Floor, St Georges Court, Upper Church Street, Douglas, IM1 1EE, Isle of Man		
Belmullet Limited	100%	ordinary
Communicator Insurance Company Limited	100%	ordinary
Priestgate Limited	100%	ordinary
Israel		
Beit Oz, 14 Abba Hillel Silver Rd, Ramat Gan, 52506, Israel		
B.T. Communication Israel Ltd	100%	ordinary
Italy		
Strada Santa Margherita, 6 / A, 43123, Parma, Italy		
BT Enia Telecomunicazioni S.p.A.	99%	ordinary
Via Correggio 5, San Donato Milanese, 20097, Milan, Italy		
Radianz Italia S.r.l.	100%	ordinary
Via Mario Bianchini 15, 00142 Roma, Italy		
BT Global Services Limited ^b	100%	–
Via Pianezza n° 123, 10151, Torino, Italy		
Atlanet SpA	99%	ordinary
Via Tuciddide 56, Torre 7, 20134, Milano, Italy		
Basictel SpA	99%	ordinary
BT Italia S.p.A.	99%	ordinary
BT Nederland N.V. ^b	100%	–
Nuova Societa di Telecomunicazioni SpA	99%	ordinary
Jamaica		
Suite #6, 9A Garelli Avenue, Half way tree, St. Andrew, Kingston 10, Jamaica		
BT Jamaica Limited	100%	ordinary
Japan		
ARK Mori Building, 12-32 Akasaka, 1-Chome, Minato-Ku, Tokyo, 107 – 6024, Japan		
BT Global Japan Corporation	100%	ordinary
BT Japan Corporation	100%	ordinary
Jersey		
26 New Street, St Helier, JE2 3RA, Jersey		
Ilford Trustees (Jersey) Limited	100%	ordinary
PO Box 264, Forum 4, Grenville Street, St Helier, JE4 8TQ, Jersey		
BT Jersey Limited	100%	ordinary

Subsidiaries continued

Company name	Group interest in allotted capital ^a	Share class
Jordan		
Wadi AlSer – Dahiet Prince Rashid – King Abdullah Street, Building No. 391 – 3rd Floor, Jordan		
BT (International) Holdings Limited (Jordan)	100%	ordinary
Kazakhstan		
No 201, 2nd Floor, Building 1a, Business Centre Nurly-Tau, 5 Al-Farabi Avenue, Almaty, 050057, Kazakhstan		
BT Kazakhstan LLP	100%	–
Kenya		
Aln House, Eldama Ravine close, off Eldama Ravine Road, Westlands, P O Box 764, Sarit Centre, Nairobi, 00606, Kenya		
BT Communications Kenya Limited	100%	ordinary
BT Telecommunications Kenya Limited	100%	ordinary
Korea		
8th Floor, KTB Building, 66 Yeoui-daero, Yeongdeungpo-gu, Seoul, 07325, Korea		
BT Global Services Korea Limited	100%	common
Latvia		
Muitas iela 1A, Riga, LV-1010, Latvia		
BT Latvia Limited, Sabiedriba ar ierobežotu atbildību	100%	ordinary
Lebanon		
Abou Hamad, Merheb, Nohra & Chedid Law Firm, Chbaro Street, 22nd Achrafieh Warde Building, 1st Floor, Beirut, P.O.BOX 165126, Lebanon		
BT Lebanon S.A.L.	100%	ordinary
Lithuania		
Aludariu str 2-33, LT-01113 Vilnius, Lithuania		
UAB BTH Vilnius	100%	ordinary
Luxembourg		
12 rue Eugene Ruppert, L 2453, Luxembourg		
BT Global Services Luxembourg SARL	100%	ordinary
BT Broadband Luxembourg Sàrl	100%	ordinary
Macao		
Avenida da Praia Grande, No. 367-371, Keng Ou Building, 15th andar C, em Macao, Macau, Macao		
BT Hong Kong Ltd. – Macau Branch ^b	100%	–
Malawi		
KEZA Office Park Blocks 3, First Floor, Near Chichiri, Shopping Mall, Blantyre, Malawi		
BT Malawi Limited	100%	ordinary

Company name	Group interest in allotted capital ^a	Share class
Malaysia		
Level 5, Tower 3, Avenue 7, Bangsar South, No.8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia		
BT Global Services Solutions Sdn Bhd	100%	ordinary
BT Global Technology (M) Sdn. Bhd.	100%	ordinary
BT Systems (Malaysia) Sdn Bhd	100%	ordinary
Malta		
Level 1, LM Complex, Brewery Street, Zone 3, Central Business District, Birkirkara CBD, 3040, Malta		
BT Solutions Limited ^b	100%	–
Mauritius		
c/o Deloitte, 7th Floor Standard Chartered Tower, 19-21 Bank Street, Cybercity, Ebène, 72201, Mauritius		
BT Global Communications (Mauritius) Limited	100%	ordinary
Mexico		
Edificio Plaza Inverlat Blvd, Manuel Avila Camacho 1, Piso, Piso 6, Colonia Lomas de Chapultepec, Miguel Hidalgo, Mexico City, 11009, Mexico		
BT LatAm México, S.A. de C.V.	100%	common
Montenegro		
Vasa Raickovica 4b, Podgorica, Podgorica, Montenegro		
BT Montenegro DOO	100%	–
Morocco		
Bd. Abdelmoumen, Immeuble Atrium, n 374, Lot. Manazyl Al Maymoune, 5eme etage, Casablanca, 20390, Morocco		
BT Solutions Limited – Morocco Branch ^b	100%	–
Mozambique		
Avenida Kenneth Kaunda, number 660, Sommershield, Maputo City, Mozambique		
BT Mozambique, Limitada	100%	quotas
Namibia		
Unit 3, 2nd floor, Ausspann Plaza, Dr Agostinho Neto Road, Ausspannplatz, Windhoek, Private Bag, 12012, Namibia		
BT Solutions Limited ^b	100%	–
Netherlands		
Herikerbergweg 2, 1101 CM, Amsterdam, Netherlands		
BT Global Europe B.V.	100%	ordinary
BT (Netherlands) Holdings B.V.	100%	ordinary
BT Nederland N.V.	100%	ordinary
BT Professional Services Nederland B.V.	100%	ordinary
Global Security Europe Limited ^b	100%	–

Company name	Group interest in allotted capital ^a	Share class
New Zealand		
c/o Deloitte, Level 18, 80 Queen Street, Auckland Central, Auckland, 1010, NZ, New Zealand		
BT Australasia Pty Limited – New Zealand Branch ^b	100%	–
Nicaragua		
De donde fué el Restaurante Marea Alta Ahora quesillos, El Pipe, 2 cuadras al este, 10 Metros al norte, frente al, Hotel El Gran Marquez, Casa #351, Nicaragua, 2815, Nicaragua		
BT Nicaragua S.A.	100%	capital
Nigeria		
Civic Towers, Plot GA1, Ozumba Mbadiwe Avenue, Victoria Island, Lagos, Nigeria		
BT (Nigeria) Limited	100%	ordinary
North Macedonia		
Str. Dame Gruev no.8, 5th floor, Building “Dom na voenite invalidi”, SKOPJE 1000, North Macedonia		
BT Solutions Limited Branch Office in Skopje ^b	100%	–
Norway		
Munkedamsveien 45, Oslo, 0121, Norway		
BT Solutions Norway AS	100%	ordinary
Oman		
Maktabi Building, Building No. 458, Unit No. 413 4th Floor, Road No – R41, Block No. 203, Plot No. 107, Zone No. SW41, Complex No. 271, Al Watiyah, Bausher, Muscat, Sultanate of Oman, Oman		
BT International Holdings Limited & Co. LLC	100%	ordinary
Pakistan		
Cavish Court, A-35, Block 7&8, KCHSU, Shahrah-e-Faisal, Karachi, 75350, Pakistan		
BT Pakistan (Private) Limited	100%	ordinary
Panama		
50th and 74th Street, San Francisco, PH 909, 15th and 16th Floor, Panama City, Panama		
BT de Panama, S.R.L.	100%	ordinary
Paraguay		
Av. Brasília N° 767 casi Siria, Asunción, Paraguay		
BT Paraguay S.R.L.	100%	quotas
Peru		
Urb. Jardin Av. Las Begonias No. 441, San Isidro, Lima, Peru		
BT Peru S.R.L.	100%	ordinary
Philippines		
11th Floor, Page One Building, 1215 Acacia Ave Madrigal Business Park, Ayala Alabang, Muntinlupa, Metro Manila, 1780, Philippines		
IT Holdings, Inc	100%	ordinary

Related undertakings continued

Subsidiaries continued

Company name	Group interest in allotted capital ^a	Share class
40th Floor, PBCom Tower 6795, Ayala Avenue cor. Rufino St, Makati City, 1226, Philippines		
BT Communications Philippines Incorporated	100%	ordinary
c/o Sun Microsystems Phil Inc., 8767 Paseo de Roxas, Makati City, Philippines		
PSPI-Subic, Inc	51%	ordinary
Poland		
126/134 Marszałkowska St., Room 128, 00-008 WARSAW, Warsaw, Poland		
BT Poland Spółka Z Ograniczoną Odpowiedzialnością	100%	ordinary
Portugal		
Rua D. Francisco Manuel de Melo 21-1, 1070-085 Lisboa, Portugal		
BT Portugal – Telecomunicações, Unipessoal Lda	100%	ordinary
Puerto Rico		
The Prentice-Hall Corporation System, Puerto Rico, Inc., c/o Fast Solutions, LLC, Citi Tower, 252 Ponce de Leon Avenue, Floor 20, San Juan, Puerto Rico, 00918, Puerto Rico		
BT Communications Sales, LLC Puerto Rico branch ^b	100%	–
Qatar		
1413, 14th Floor, Al Fardan Office Tower, Doha, 31316, Qatar		
BT Global Services (North Gulf) LLC	49%	ordinary
Republic of Ireland		
2 Grand Canal Plaza, Upper Grand Canal Street, Dublin 4, Republic of Ireland		
BT Communications Ireland Limited	100%	ordinary
BT Communications Ireland Group Limited	100%	ordinary
BT Communications Ireland Holdings Limited	100%	ordinary
BT Global Communications (Ireland) Limited	100%	ordinary
The Faraday Procurement Company Limited	100%	ordinary
Whitestream Industries Limited	100%	ordinary
BDO, Beaux Lane House, Mercer Street Lower, Dublin 2, Ireland		
Canal Capital Investment Limited	100%	ordinary
Romania		
Cladirea A1, Biroul Nr. 52, Nr 35-37, Str. Oltenitei, Sector 4, Bucharest, Romania		
BT Global Services Limited Londra Sucursala Bucuresti ^b	100%	–

Company name	Group interest in allotted capital ^a	Share class
Russia		
Room 62, prem xx, Floor 2, Pravdy, 26, 127137, Moscow, Russian Federation		
BT Solutions Limited Liability Company	100%	–
Serbia		
Dimitrija Georgijevica Starike 20, Belgrade, 11070, Serbia		
BT Belgrade d.o.o	100%	ordinary
Sierra Leone		
84 Dundas Street, Freetown, Sierra Leone		
BT (SL) Limited	100%	ordinary
Singapore		
Level 3, #03-01/02 & #03-04, Block B, Alexandra Technopark, 438B Alexandra Road, Singapore, 119968		
BT (India) Private Limited Singapore Branch ^b	100%	–
BT Global Services Technologies Pte. Ltd.	100%	ordinary
BT Global Solutions Pte. Ltd.	100%	ordinary
BT Singapore Pte. Ltd.	100%	ordinary
Slovakia		
Dvorakovo nabrezie 4, 811 02, Bratislava, Slovakia		
BT Slovakia s.r.o.	100%	ordinary
Slovenia		
Cesta v Mestni Log 1, Ljubljana, 1000, Slovenia		
BT GLOBALNE STORITVE, telekomunikacijske storitve, obdelava podatkov, podatkovnih baz; d.o.o.	100%	ordinary
South Africa		
BT Building, Woodmead North Office Park, 54 Maxwell Drive, Woodmead, 2191, South Africa		
BT Communications Services South Africa (Pty) Limited	70%	ordinary
BT Limited ^b	100%	–
Spain		
C/ María Tubau, 3, 28050 de Madrid, Spain		
BT Global ICT Business Spain SLU	100%	ordinary
Sri Lanka		
Level 03, No 11, Castle Lane, Colombo, 04, Sri Lanka		
BT Communications Lanka (Private) Limited	100%	ordinary
Sudan		
Alskheikh Mustafa Building, Parlman Street, Khartoum, Sudan		
Newgate Communication (Sudan) Co. Ltd	100%	ordinary

Company name	Group interest in allotted capital ^a	Share class
Sweden		
Box 30005, 104 25, Stockholm, Sweden		
BT Nordics Sweden AB	100%	ordinary
Switzerland		
Richtistrasse 5, 8304 Wallisellen, Switzerland		
BT Switzerland AG	100%	ordinary
Taiwan		
Shin Kong Manhattan Building, 14F, No. 8, Sec. 5, Xinyi Road, Taipei, 11049, Taiwan		
BT Limited Taiwan Branch ^b	100%	–
Tanzania		
Region Dar Es Salaam, District Kinondoni, Ward Msasani, Street Msasani Peninsula, Road 1 Bains Singh Avenue, Plot number 1403/1, Ground Floor, 14111, United Republic of Tanzania		
BT Solutions Limited – Tanzania Branch ^b	100%	–
Thailand		
No.63 Athenee Tower, 23rd Floor (CEO Suite, Room No.38), Wireless Road, Kwaeng Lumpini, Khet Pathumwan, Bangkok, 10330, Thailand		
BT Siam Communications Co., Ltd	49%	class B
BT Siam Limited	69%	preference
Trinidad and Tobago		
2nd Floor CIC Building, 122-124 Frederick Street, Port of Spain, Trinidad and Tobago		
BT Solutions Limited ^b	100%	–
Tunisia		
Rue de l' Euro Immeuble Slim, Block A-2nd floor-Les berges du Lac, Tunis, 1053, Tunisia		
BT Tunisia S.A.R.L	100%	ordinary
Turkey		
Acıbadem Mahallesi Çeçen Sk. Akasya A, Kule Kent Etabı Apt. No: 25 A/28-, Üsküdar, Istanbul, Turkey		
BT Bilisim Hizmetleri Anonim Şirketi	100%	ordinary
BT Telekom Hizmetleri Anonim Şirketi	100%	common
Uganda		
Engoru, Mutebi Advocates, Ground Floor, Rwenzori House, 1 Lumumba Avenue, Kampala, 22510, Uganda		
BT Solutions Limited ^b	100%	–
Ukraine		
Office 702, 34 Lesi Ukrainky Boulevard, Kyiv 01042, Ukraine		
BT Ukraine Limited Liability Company	100%	stakes
United Arab Emirates		
Office No G03, Ground Floor, EIB Building No 04, Dubai, United Arab Emirates		
BT MEA FZ-LLC	100%	ordinary

Subsidiaries continued

Company name	Group interest in allotted capital ^a	Share class	Company name	Group interest in allotted capital ^a	Share class	Company name	Group interest in allotted capital ^a	Share class
Office no.206 BLOCK B, Diamond Business Center 1, Al Barsha South Third, Dubai, P.O. BOX 25205, United Arab Emirates			Alexander Bain House, 15 York Street, Glasgow, Lanarkshire, G2 8LA, Scotland			Uruguay		
BT UAE Limited – Dubai Branch (1) ^b	100%	–	Global Security Europe Limited	100%	ordinary	Rincón 487 Piso 11, Montevideo, ZIP CODE 11.000, Uruguay		
BT UAE Limited – Dubai Branch (2) ^b	100%	–	Newgate Street Secretaries Limited	100%	ordinary	BT Solutions Limited		
United Kingdom			Numberrapid Limited	100%	ordinary	Sucursal Uruguay ^b	100%	–
1 Braham Street, London, E1 8EE, United Kingdom			Pelipod Ltd	100%	ordinary	Venezuela		
Autumnwindow Limited	100%	ordinary	Radianz Limited	100%	ordinary	Edificio Parque Cristal, Torre Oeste, Piso 5, Oficina 5, Avenida Francisco de Miranda, Urbanización Los Palos Grandes, Caracas 1060, Venezuela		
Autumnwindow No.2 Limited	100%	ordinary	Southgate Developments Limited	100%	ordinary	BT LatAm Venezuela, S.A.	100%	ordinary
Autumnwindow No.3 Limited	100%	ordinary	Tudor Minstrel	100%	ordinary	BT Global (Venezuela) S.A.	100%	ordinary
Belmullet (IoM) Limited ^b	100%	–	BDO LLP, 55 Baker Street, London, W1U 7EU, United Kingdom			Vietnam		
BPSLP Limited	100%	ordinary	BT Centre Nominee 2 Limited	100%	ordinary	16th Floor Saigon Tower, 29 Le Duan Road, District 1, Ho Chi Minh City, 710000, Socialist Republic of Vietnam		
British Telecommunications plc	100%	ordinary	BT Cornwall Limited	100%	ordinary	BT (Vietnam) Co. Ltd.	100%	ordinary
Bruning Limited	100%	ordinary	BT Facilities Services Limited	100%	ordinary	Zambia		
BT (International) Holdings Limited	100%	ordinary	BT Managed Services Limited	100%	ordinary	Plot No. 11058, Haile Selassie Avenue, Zimbabwe, Lusaka, Lusaka Province, 34972, Zambia		
BT (RRS LP) Limited	100%	ordinary	EE Finance Limited	100%	ordinary	BT Solutions Limited ^b	100%	–
BT Communications Ireland Group Limited – UK Branch ^b	100%	–	groupBT Limited	100%	ordinary	Zimbabwe		
BT Corporate Trustee Limited	100%	limited by guarantee	Kelvin House, 123 Judd Street, London, WC1H 9NP, United Kingdom			3 Baines Avenue, Box 334, Harare, Zimbabwe		
BT European Investments Limited	100%	ordinary	Openreach Limited	100%	ordinary	Numberrapid Limited ^b	100%	–
BT Fifty-One	100%	ordinary	The Balance, 2 Pinfold Street, Sheffield, S1 2GU, United Kingdom					
BT Fifty-Three Limited	100%	ordinary	Plusnet plc	100%	ordinary			
BT Global Security Services Limited	100%	ordinary	Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9BW, United Kingdom					
BT Global Services Limited	100%	ordinary	EE (Group) Limited	100%	ordinary			
BT Holdings Limited	100%	ordinary	EE Limited	100%	ordinary			
BT IoT Networks Limited	100%	ordinary	EE Pension Trustee Limited	100%	ordinary			
BT Lancashire Services Limited	100%	ordinary	Mainline Communications Group Limited	100%	ordinary			
BT Limited	100%	ordinary	Mainline Digital Communications Limited	100%	ordinary			
BT Ninety-Five Limited	100%	ordinary	Orange Furbs Trustees Limited	100%	ordinary			
BT Nominees Limited	100%	ordinary	Orange Home UK Limited	100%	ordinary			
BT OnePhone Limited ^c	100%	ordinary	Orange Personal Communications Services Limited	100%	ordinary			
BT Property Holdings (Aberdeen) Limited	100%	ordinary	United States					
BT Property Limited	100%	ordinary	c/o Corporation Service Company, 251 Little Falls Drive, Wilmington DE 19808, United States					
BT Sixty-Four Limited	100%	ordinary	BT Americas Holdings Inc.	100%	common			
BT SLE Euro Limited	100%	ordinary	BT Americas Inc.	100%	common			
BT SLE USD Limited	100%	ordinary	BT Communications Sales LLC	100%	units			
BT Solutions Limited	100%	ordinary	BT Federal Inc.	100%	common			
BT UAE Limited	100%	ordinary	BT Procure L.L.C.	100%	units			
Communications Global Network Services Limited – UK Branch ^b	100%	–	BT United States L.L.C.	100%	units			
Communications Networking Services (UK)	100%	ordinary	Infonet Services Corporation	100%	common			
EE Group Investments Limited	100%	ordinary						
ESAT Telecommunications (UK) Limited	100%	ordinary						
Extraclick Limited	100%	ordinary						

Related undertakings continued

Associates

Company name	Group interest in allotted capital ^a	Share class
Held via other group companies		
Mauritius		
IFS Court, Bank Street, TwentyEight Cybercity, Ebene, 72201, Mauritius		
Mahindra – BT Investment Company (Mauritius) Limited	43%	ordinary
Philippines		
32F Philam Life Tower, 8767 Paseo de Roxas, Makati City, Philippines		
ePLDTSunphilcox JV, Inc	20%	ordinary
SunPhilcox JV, Inc	20%	ordinary
United Kingdom		
24/25 The Shard, 32 London Bridge Street, London, SE1 9SG, United Kingdom		
Digital Mobile Spectrum Limited	25%	ordinary
Unit 1, Colwick Quays Business Park, Colwick, Nottingham, Nottinghamshire, NG4 2JY, United Kingdom		
Midland Communications Distribution Limited	35%	ordinary
Phoneline (M.C.D) Limited	35%	ordinary
2nd Floor, Aldgate Tower, 2 Leman Street, London, E1 8FA, United Kingdom		
Youview TV Limited	14%	voting

Joint ventures

Company name	Group interest in allotted capital ^a	Share class
Held via other group companies		
Indonesia		
20/F of IWG Spaces at World Trade Centre 3, Jl, Jend. Sudirman, RT.4/RW.2, Karet Kuningan, Kota Administrasi Jakarta Selatan, Jakarta, 12920, Indonesia		
PT Sun Microsystems Indonesia	60%	ordinary
Philippines		
11th Floor, Page One Building, 1215 Acacia Avenue, Madrigal Business Park, Ayala Alabany, Muntinlupa city, 1780 City, Manila, 1780, Philippines		
Sun Microsystems Philippines, Inc	51%	common
United Kingdom		
6th Floor, One London Wall, London, EC2Y 5EB, United Kingdom		
Internet Matters Limited	25%	–
St Helen's 1 Undershaft, London, EC3P 3DQ, United Kingdom		
Rugby Radio Station (General Partner) Limited	50%	ordinary
Rugby Radio Station (Nominee) Limited	50%	ordinary
Rugby Radio Station LP	50%	–

All joint ventures are governed by a joint venture agreement.

Joint operations

Company name	Group interest in allotted capital ^a	Share class
Held via other group companies		
United Kingdom		
Sixth Floor, Thames Tower, Station Road, Reading, RG1 1LX, United Kingdom		
Mobile Broadband Network Limited	50%	ordinary

EE Limited and Hutchison 3G UK Limited (together 'the Companies') each have a 50% share in the joint operation Mobile Broadband Network Limited ('MBNL'). MBNL's ongoing purpose is the operation and maintenance of radio access sites for mobile networks through a sharing arrangement. This includes the efficient management of shared infrastructure and a 3G network on behalf of the Companies, acquiring certain network elements for shared use, and coordinating the deployment of new infrastructure and networks on either a shared or a unilateral basis (unilateral elements being network assets or services specific to one company only). The group is committed to incurring 50% of costs in respect of restructuring the shared MBNL network, a broadly similar proportion of the operating costs (which varies in line with usage), and 100% of any unilateral elements.

MBNL is accounted for as a joint operation.

Guarantees for the joint operation are given by British Telecommunications plc and CK Hutchison Holdings Limited.

The principal place of business of the joint operation is in the UK.

^a The proportion of voting rights held corresponds to the aggregate interest in percentage held by the holding company and subsidiaries undertaking.

^b No shares issued for a branch.

^c In April 2021, group acquired the remaining 30% ordinary shares of BT OnePhone Limited therefore the company is now a wholly owned subsidiary.

Additional information

Alternative performance measures

Introduction

We assess the performance of the group using a variety of alternative performance measures that are not defined under IFRS and are therefore termed non-GAAP measures. The non-GAAP measures we use are: adjusted revenue, adjusted operating costs, adjusted finance expense, adjusted EBITDA, adjusted operating profit, adjusted profit before tax, adjusted earnings per share, return on capital employed, normalised free cash flow and net debt. The rationale for using these measures, along with a reconciliation from the nearest measures prepared in accordance with IFRS, are presented below.

The alternative performance measures we use may not be directly comparable with similarly titled measures used by other companies.

Specific items

Our income statement and segmental analysis separately identify trading results on an adjusted basis, being before specific items. The directors believe that presentation of the group's results in this way is relevant to an understanding of the group's financial performance as specific items are those that in management's judgement need to be disclosed by virtue of their size, nature or incidence.

This presentation is consistent with the way that financial performance is measured by management and reported to the Board and the Executive Committee and assists in providing an additional analysis of our reporting trading results.

In determining whether an event or transaction is specific, management considers quantitative as well as qualitative factors. Examples of charges or credits meeting the above definition and which have been presented as specific items in the current and/or prior years include business restructuring programmes, acquisitions and disposals of businesses and investments, charges or credits relating to retrospective regulatory matters, property rationalisation programmes, significant out of period contract settlements, net interest on our pension obligation, and the impact of remeasuring deferred tax balances. In the event that items meet the criteria, which are applied consistently from year to year, they are treated as specific items. Any releases to provisions originally booked as a specific item are also classified as specific.

Details of items meeting the definition of specific items in the current and prior year are set out in note 9.

Reported revenue, reported operating costs, reported operating profit, reported net finance expense, reported profit before tax and reported earnings per share are the equivalent IFRS measures. A reconciliation from these can be seen in the group income statement on [page 129](#).

Net debt and net financial debt

Net debt consists of loans and other borrowings, lease liabilities (both current and non-current) less current asset investments and cash and cash equivalents, including items which have been classified as held for sale on balance sheet.

Our net debt calculation starts from the expected future undiscounted cash flows that should arise when our financial instruments mature. Currency-denominated balances within net debt are translated to sterling at swap rates where hedged. Fair value adjustments and accrued interest applied to loans and borrowings, current asset investments and cash equivalents to reflect the effective interest method are removed.

Net debt is a measure of the group's net indebtedness that provides an indicator of overall balance sheet strength. It is a key indicator used by management to assess both the group's cash position and its indebtedness. The use of the term 'net debt' does not necessarily mean that the cash included in the net debt calculation is available to settle the liabilities included in this measure.

Net financial debt is net debt excluding lease liabilities. It allows for the comparison to net debt measures reported before the introduction of IFRS 16 on 1 April 2019, and reflects a view that lease liabilities are operational debt in substance, rather than financing transactions.

Net debt and net financial debt are considered to be alternative performance measures as they are not defined in IFRS. A reconciliation from loans and other borrowings, lease liabilities, cash and cash equivalents, and current asset investments, the most directly comparable IFRS measures to net debt and net financial debt, is set out in note 26.

Additional information continued

Return on Capital Employed

We use a return on capital employed (ROCE) measure that serves as an indicator of how efficiently we generate returns from the capital invested in the business. It is a group KPI that is directly relatable to the outcome of investment decisions.

ROCE represents the group's returns as percentage of capital employed.

Returns are defined as adjusted earnings before interest and tax. We use an adjusted measure (before specific items) for the reasons explained in the 'specific items' section above.

Capital employed represents equity, debt and debt-like liabilities. We net the derivative financial instruments and cash and cash equivalent balances that we use to manage financial risk against gross debt, and exclude current and deferred tax balances as the measure is determined on a pre-tax basis.

While our long-term capital investment programmes such as our full fibre rollout deliver value-creating long term returns, they suppress ROCE in the short-to-medium term.

The following table sets out the calculation of our ROCE measure. In doing so it reconciles returns to operating profit, the most directly comparable IFRS measure, and presents the components of capital employed.

Year ended 31 March	2022 £m	2021 £m
Reported operating profit for the period	2,885	2,587
Share of post tax profits (losses) of associates and joint ventures	–	8
Specific items (non-finance and tax)	287	481
Return for the period	3,172	3,076
Equity, debt and debt-like liabilities		
Loans and other borrowings	16,185	16,685
Lease liabilities	5,760	6,152
Retirement benefit obligations	1,143	5,096
BDUK grant funding deferral	488	568
Total equity	15,296	11,679
Adjust for balances used to hedge financial risk		
Cash and cash equivalents	(777)	(1,000)
Investments	(2,713)	(3,683)
Net derivative financial instruments	(221)	48
Adjust for tax balances		
Net deferred tax liabilities	1,671	440
Net current tax receivable	(406)	(197)
Capital employed	36,426	35,788
Return on capital employed	8.7%	8.6%

Adjusted EBITDA

In addition to measuring financial performance of the group and customer-facing units based on operating profit, we also measure performance based on EBITDA and adjusted EBITDA. EBITDA is defined as the group profit or loss before interest, taxation, depreciation and amortisation. Adjusted EBITDA is defined as EBITDA before specific items, net non-interest related finance expense, and share of post-tax profits or losses of associates and joint ventures. EBITDA is a common measure used by investors and analysts to evaluate the operating financial performance of companies, particularly in the telecommunications sector.

We consider EBITDA and adjusted EBITDA to be useful measures of our operating performance because they approximate the underlying operating cash flow by eliminating depreciation and amortisation. EBITDA and adjusted EBITDA are not direct measures of our liquidity, which is shown by our cash flow statement, and need to be considered in the context of our financial commitments.

A reconciliation of reported profit for the period, the most directly comparable IFRS measure, to EBITDA and adjusted EBITDA is set out below.

Year ended 31 March	2022 £m	2021 £m
Reported profit for the period	1,274	1,472
Tax	689	332
Reported profit before tax	1,963	1,804
Net interest related finance expense	813	773
Depreciation and amortisation	4,405	4,347
EBITDA	7,181	6,924
EBITDA specific items	287	481
Net other finance expense	109	18
Share of post tax losses (profits) of associates and joint ventures	–	(8)
Adjusted EBITDA	7,577	7,415

Normalised free cash flow

Normalised free cash flow is one of the group's key performance indicators by which our financial performance is measured. It is primarily a liquidity measure. However, we also believe it is an important indicator of our overall operational performance as it reflects the cash we generate from operations after capital expenditure and financing costs, both of which are significant ongoing cash outflows associated with investing in our infrastructure and financing our operations.

Normalised free cash flow is defined as free cash flow (net cash inflow from operating activities after net capital expenditure) after net interest paid and payment of lease liabilities, before pension deficit payments (including their cash tax benefit), dividends from associates, non-current asset investments, payments relating to spectrum, and specific items. For non-tax related items the adjustments are made on a pre-tax basis. It excludes cash flows that are determined at a corporate level independently of ongoing trading operations such as dividends, share buybacks, acquisitions and disposals, and repayment and raising of debt.

Normalised free cash flow is not a measure of the funds that are available for distribution to shareholders.

A reconciliation from cash inflow from operating activities, the most directly comparable IFRS measure, to free cash flow and normalised free cash flow, is set out below.

Year ended 31 March	2022 £m	2021 £m
Cash generated from operations	5,962	6,251
Tax paid	(52)	(288)
Net cash inflow from operating activities	5,910	5,963
Net purchase of property, plant and equipment and intangible assets	(4,607)	(4,818)
Free cash flow	1,303	1,145
Interest received	6	6
Interest paid	(755)	(770)
Add back pension deficit payments	1,121	955
Remove cash tax benefit of pension deficit payments	–	(181)
Dividends from associates	1	5
Add back net cash flow from specific items	606	390
Add back net sale of non-current asset investments	(8)	(11)
Add back prepayment in respect of spectrum licence auction	(223)	702
Remove payment of lease liabilities	(659)	(782)
Normalised free cash flow	1,392	1,459

Below we reconcile normalised free cash flow by unit:

Year ended 31 March	2022 £m	2021 £m
Consumer	917	714
Enterprise	791	1,352
Global	131	187
Openreach	448	486
Other	(895)	(1,280)
Intra-group items	–	–
Normalised free cash flow	1,392	1,459

Cautionary statement regarding forward-looking statements

Certain information included in this Annual Report and Accounts is forward looking and involves risks, assumptions and uncertainties that could cause actual results to differ materially from those expressed or implied by forward looking statements. Forward looking statements cover all matters which are not historical facts and include, without limitation, projections relating to results of operations and financial conditions and the Company's plans and objectives for future operations. Forward looking statements can be identified by the use of forward looking terminology, including terms such as 'believes', 'estimates', 'anticipates', 'expects', 'forecasts', 'intends', 'plans', 'projects', 'goal', 'target', 'aim', 'may', 'will', 'would', 'could' or 'should' or, in each case, their negative or other variations or comparable terminology. Forward looking statements in this Annual Report and Accounts are not guarantees of future performance. All forward looking statements in this Annual Report and Accounts are based upon information known to the Company on the date of this Annual Report and Accounts. Accordingly, no assurance can be given that any particular expectation will be met and readers are cautioned not to place undue reliance on forward looking statements, which speak only at their respective dates. Additionally, forward looking statements regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. Other than in accordance with its legal or regulatory obligations (including under the UK Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority), the Company undertakes no obligation to publicly update or revise any forward looking statement, whether as a result of new information, future events or otherwise. Nothing in this Annual Report and Accounts shall exclude any liability under applicable laws that cannot be excluded in accordance with such laws.

**BT Group plc**

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